



IKONICS

C O R P O R A T I O N

Bringing unique imaging solutions to the people of the world...

2006 SECOND QUARTER REPORT

Common Stock

IKONICS Corporation common stock is traded on the Nasdaq SmallCap market under the symbol IKNX.

Transfer Agent

Wells Fargo Shareowner Services
 PO Box 64854
 St. Paul, MN 55164-0854

Shareholders with questions on stock holdings, transfer requirements and address changes contact Wells Fargo Bank at 651-450-4064 or 800-468-9716.

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Summary of Quarterly Statements

(Thousands of Dollars, Except Per Share Information)

Quarter Ended	2006			2005			2004		
	Net Sales	Net Income	Earnings Per Share	Net Sales	Net Income	Earnings Per Share	Net Sales	Net Income	Earnings Per Share
March 31	\$3,372	\$98	\$0.05	\$3,329	\$24	\$0.01	\$3,383	\$161	\$0.08
June 30	4,100	347	0.17	3,742	275	0.14	3,683	274	0.14
September 30				3,462	287	0.14	3,324	205	0.10
December 31				3,438	322	0.16	3,292	118	0.06
	\$7,471	\$446	\$0.22	\$13,971	\$908	\$0.46	\$13,682	\$758	\$0.38

Unaudited Interim Financial Statements
 (Some columns may not add due to rounding)

August 22, 2006

To Our Shareholders:

I am pleased to report that sales and earnings rebounded strongly in the second quarter. Sales were up 10% over the second quarter of 2005 to a record \$4,100,000. Earnings were up over the same period by 26% to a record \$347,000, or \$0.17 per share. For the first six months of the year, sales have increased by 6% and earnings by 49% over the same 2005 period. Sales have been strong in all markets, with Asia being particularly robust.



During the quarter we made continued progress with our new business initiatives:

1. We have established an inkjet technology lab in Duluth to accelerate the development of products for industrial markets. We plan to have prototypes at our beta sites in the third quarter. During the first half of the year, we further increased our strategic investment in the inkjet technology company, iTi, by \$325,000.
2. We have learned that our IKONMetal can be laser engraved to make very handsome images. This application is finding strong market acceptance and we have also made good progress in establishing distribution for IKONMetal.
3. Our industrial etching technology will be featured in an upcoming issue of Machine Design, a leading publication for the industrial machining industry.

On a less positive note, the SEC has decided that companies our size will be subject to Rule 404 of Sarbanes Oxley, and we will begin to incur this cost in the third quarter as we resume our compliance efforts. The third quarter will also be affected by expenses related to our bi-annual exhibiting at the major screen print trade show.

For the Board of Directors,

William C. Ulland
Chairman, President & CEO

IKONICS CORPORATION

Condensed Statements of Operations (unaudited)

For the Three Months and Six Months Ended June 30, 2006 and 2005

	Three Months Ended		Six Months Ended	
	6/30/06	6/30/05	6/30/06	6/30/05
Net Sales	\$4,099,674	\$3,741,995	\$7,471,474	\$7,070,522
Costs and expenses net of interest income	3,598,752	3,343,065	6,824,762	6,656,826
Income before income taxes	500,922	398,930	646,712	413,696
Income tax expense	153,453	123,668	200,941	114,779
Net income	\$ 347,469	\$ 275,262	\$ 445,771	\$ 298,917
Earnings per common share-diluted	\$ 0.17	\$ 0.14	\$ 0.22	\$ 0.15
Average shares outstanding-diluted	2,048,958	1,964,166	2,030,068	1,964,218

Condensed Balance Sheets

As of June 30, 2006 and December 31, 2005

Assets	6/30/06 (unaudited)	12/31/05
Current assets	\$7,910,786	\$7,728,358
Property, plant and equipment, net	882,390	951,565
Investment in Non-Marketable Equity Securities	775,788	450,790
Intangible assets	297,638	279,086
Deferred taxes	61,000	61,000
	\$ 9,927,602	\$9,470,799
Liabilities and Equity		
Current liabilities	\$ 754,701	\$ 992,294
Long term debt	-	-
Stockholders' equity	9,172,901	8,478,505
	\$ 9,927,602	\$ 9,470,799

Condensed Statements of Cash Flow (unaudited)

For Six Months Ended June 30, 2006 and 2005

	6/30/06	6/30/05
Net cash provided by operating activities	\$ 472,969	\$ 125,237
Net cash used in investing activities	(325,405)	(272,362)
Net cash provided by financing activities	223,047	13,214
Net increase (decrease) in cash and cash equivalents	370,611	(133,911)
Cash and cash equivalents at beginning of period	3,412,072	2,737,460
Cash and cash equivalents at end of period	\$3,782,683	\$2,603,549

Unaudited interim financial information. Some columns may not add due to rounding.

The preceding letter contains statements regarding future financial results, new products, distribution arrangements and other matters that involve risks and uncertainties. The Company's actual results could differ materially as a result of domestic and global economic conditions, competitive market conditions, acceptance of new products, the ability to identify and make suitable acquisitions, as well as the factors described in the company's most recent Form 10-KSB and most recent Form 10-QSB on file with the SEC.