



## 2007 SECOND QUARTER REPORT

**IKONICS**  
CORPORATION

ISO 9001 CERTIFIED NASDAQ LISTED: IKNX

### Common Stock

IKONICS Corporation common stock is traded on the Nasdaq Capital 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 | 2007      |            |                    | 2006      |            |                    | 2005      |            |                    |
|---------------|-----------|------------|--------------------|-----------|------------|--------------------|-----------|------------|--------------------|
|               | Net Sales | Net Income | Earnings Per Share | Net Sales | Net Income | Earnings Per Share | Net Sales | Net Income | Earnings Per Share |
| March 31      | \$3,508   | \$139      | \$0.07             | \$3,372   | \$98       | \$0.05             | \$3,329   | \$24       | \$0.01             |
| June 30       | 4,375     | 331        | 0.16               | 4,100     | 347        | 0.17               | 3,742     | 275        | 0.14               |
| September 30  |           |            |                    | 3,674     | 285        | 0.14               | 3,462     | 287        | 0.14               |
| December 31   |           |            |                    | 3,744     | 393        | 0.19               | 3,438     | 322        | 0.16               |
|               | \$7,882   | \$470      | \$0.23             | \$14,889  | \$1,124    | \$0.55             | \$13,971  | \$908      | \$0.46             |

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

August 23, 2007

To Our Shareholders:

Sales improved substantially in the second quarter with a 25% increase over the first quarter to a record \$4,374,677. This is a 7% increase over the 2006 second quarter, which was a record for sales and earnings. Net income for the quarter was \$331,402 or \$0.16 per share compared to \$0.17 per share for the record second quarter last year.



Earnings did not keep pace with sales primarily because of increased raw materials costs, expenses related to a new rented warehouse (necessitated by the Image Mate acquisition) and expenses related to our new strategic initiatives. We are taking appropriate pricing steps to offset the increased manufacturing costs; but fixed costs and expenses related to our new strategic initiatives need to be overcome through growth.

Our Digital Texturing project is moving ahead steadily, and we are currently producing commercial product on our laboratory equipment. We have ordered a prototype production machine from our strategic partner, iTi, for delivery in the fourth quarter. Assuming that we can surmount the very significant remaining hurdles, we anticipate revenue from this effort in 2008.

Our Photo-Machining Process is moving at a faster pace. We have a number of repeat orders and are currently responding to requests for prototypes. We recently purchased high-volume production equipment, will make additional capital investments and add staff this year. Much of our market is the aerospace and electronics industries where sales cycles are much longer than what we are used to. Although we don't know the precise demand for our service, market reaction, so far, gives us confidence that we provide a unique value to these customers.

We also expect the remainder of the year to benefit from new products that we will introduce to both the screen printing and abrasive etching markets.

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, 2007 and 2006

|  | Three Months Ended |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | <u>6/30/07</u>     | <u>6/30/06</u>    | <u>6/30/07</u>    | <u>6/30/06</u>    |
| Net Sales .....                          | \$4,374,677        | \$4,099,674       | \$7,882,444       | \$7,471,474       |
| Costs and expenses .....                 | <u>3,934,716</u>   | <u>3,625,112</u>  | <u>7,446,150</u>  | <u>6,874,909</u>  |
| Income from operations .....             | 439,961            | 474,563           | 436,294           | 596,565           |
| Gain on sale of investment .....         | -                  | -                 | 55,159            | -                 |
| Interest income .....                    | <u>36,724</u>      | <u>26,359</u>     | <u>69,631</u>     | <u>50,147</u>     |
| Income before income taxes .....         | 476,685            | 500,922           | 561,084           | 646,712           |
| Income tax expense .....                 | <u>145,283</u>     | <u>153,453</u>    | <u>90,585</u>     | <u>200,941</u>    |
| Net income .....                         | <u>\$ 331,402</u>  | <u>\$ 347,469</u> | <u>\$ 470,499</u> | <u>\$ 445,771</u> |
| Earnings per common share-diluted .....  | <u>\$ 0.16</u>     | <u>\$ 0.17</u>    | <u>\$ 0.23</u>    | <u>\$ 0.22</u>    |
| Average shares outstanding-diluted ..... | 2,064,698          | 2,048,958         | 2,056,762         | 2,030,068         |

### Condensed Balance Sheets

As of June 30, 2007 and December 31, 2006

| Assets   | <u>6/30/07</u>       | <u>12/31/06</u>     |
|--|----------------------|---------------------|
|  | (Unaudited)          |                     |
| Current assets .....                                 | \$ 8,631,849         | \$ 8,229,210        |
| Property, plant and equipment, net .....             | 1,289,568            | 991,920             |
| Investment in non-marketable equity securities ..... | 855,201              | 988,910             |
| Intangible assets .....                              | 486,144              | 485,421             |
| Deferred income taxes .....                          | <u>48,000</u>        | <u>48,000</u>       |
|  | <u>\$11,310,762</u>  | <u>\$10,743,461</u> |
| <b>Liabilities and Equity</b>                        |                      |                     |
| Current liabilities .....                            | \$ 995,481           | \$ 879,362          |
| Long term debt .....                                 | -                    | -                   |
| Stockholders' equity .....                           | <u>10,315,281</u>    | <u>9,864,099</u>    |
|  | <u>\$ 11,310,762</u> | <u>\$10,743,461</u> |

### Condensed Statements of Cash Flow (Unaudited)

For Six Months Ended June 30, 2007 and 2006

|  | <u>6/30/07</u>     | <u>6/30/06</u>     |
|--|--------------------|--------------------|
| Net cash provided by operating activities .....        | \$ 857,280         | \$ 472,969         |
| Net cash used in investing activities .....            | (263,454)          | (325,405)          |
| Net cash provided by financing activities .....        | <u>95,719</u>      | <u>223,047</u>     |
| Net increase in cash and cash equivalents .....        | 689,545            | 370,611            |
| Cash and cash equivalents at beginning of period ..... | <u>3,428,186</u>   | <u>3,412,072</u>   |
| Cash and cash equivalents at end of period .....       | <u>\$4,117,731</u> | <u>\$3,782,683</u> |

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

The preceding letter contains statements regarding future financial results, new products, 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.