

Unique. Imaging. Solutions.



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**.

For Additional Financial Information Contact:

Jon Gerlach
Chief Financial Officer

Phone: 218-628-2217
Fax: 218-628-3245
E-mail: jgerlach@ikonics.com



4832 Grand Avenue, Duluth, MN 55807
Phone (218) 628-2217 **Fax** (218) 628-3245
Web www.ikonics.com **Email** info@ikonics.com

Summary of Quarterly Statements

(Thousands of Dollars, Except Per Share Information)

Quarter Ended	2010			2009			2008		
	Net Sales	Net Income	Earnings Per Share	Net Sales	Net Income (loss)	Earnings (Loss) Per Share	Net Sales	Net Income	Earnings Per Share
March 31	\$3,685	\$148	\$0.08	\$3,563	\$53	\$0.03	\$3,781	\$106	\$0.05
June 30	4,248	343	0.17	3,787	147	0.07	4,390	358	0.17
September 30	4,141	287	0.15	3,921	(709)	(0.36)	3,833	238	0.11
December 31	\$12,074	\$779	\$0.39	\$15,122	\$(307)	\$(0.16)	\$15,854	\$814	\$0.40

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



TO OUR STOCKHOLDERS:

I am very pleased to report record sales for the quarter ended September 30, 2010 of \$4,141,000, a 6% increase over the third quarter of 2009. Earnings were \$287,000, or \$0.15 per share, compared to a 2009 third quarter loss of \$709,000 caused by the write off the Company's \$919,000 investment in Imaging Technology International (iTi). The first nine months of 2010 produced record sales of \$12,074,000, a 7% increase over the same period of 2009, and near record earnings per share of \$0.39.

We have rebounded from the poorest quarterly earnings in our Company's history and a sluggish world economy to set a new sales record and near record earnings for this current nine month period. Not only have we recovered financially from the failure of iTi, but we have established stronger new sources for the digital printers that iTi was supplying to our Digital Texturing (DTX) program. DTX is now a growing product line, and we have been awarded a European patent on the process and have applied for a U.S. patent.

The sales growth for both the quarter and nine month periods were primarily driven by increased export sales and our new business initiatives, primarily DTX.

We have successfully completed a research project for DARPA (Defense Advanced Research Projects Agency) using our proprietary technology to machine exotic metal composites; we are investigating the commercial opportunities. We are also seeing increasing awareness of and interest in our new technologies from the electronics display and sound deadening segments.

Over the past two years we have experienced both increased capital and operating costs associated with the start up of our new business initiatives. These include increased expenditures for patent applications, as we add to our intellectual property portfolio; an additional chemist hired to advance our DTX program; increased depreciation related our new facility which houses our new business initiatives as well as shipping for the Company. However, sales are growing, profits are at near record levels, and we have a cash and short term investments position at the end the quarter of \$2,670,000 with no long term debt. I believe these trends will continue through 2011.

For the Board of Directors,

WILLIAM C. ULLAND
Chairman, President & CEO

Condensed Statements of Operations (unaudited)

For the Three Months and Nine Months Ended September 30, 2010 and 2009

	Three Months Ended		Nine Months Ended	
	09/30/10	09/30/09	09/30/10	09/30/09
Net sales	\$4,141,092	\$3,920,663	\$12,073,724	\$11,270,376
Cost of goods sold	<u>2,474,188</u>	<u>2,337,757</u>	<u>7,093,266</u>	<u>6,825,654</u>
Gross profit	1,666,904	1,582,906	4,980,458	4,444,722
Operating expenses	<u>1,249,997</u>	<u>1,266,276</u>	<u>3,938,063</u>	<u>3,906,972</u>
Income from operations	416,907	316,630	1,042,395	537,750
Gain on sale of investment	—	—	—	29,762
Loss on investment	—	(918,951)	—	(918,951)
Interest income	<u>6,267</u>	<u>3,070</u>	<u>13,672</u>	<u>5,190</u>
Income (loss) before income taxes	423,174	(599,251)	1,056,067	(346,249)
Income tax expense	<u>135,831</u>	<u>110,134</u>	<u>277,111</u>	<u>163,253</u>
Net income (loss)	<u>\$ 287,343</u>	<u>\$ (709,385)</u>	<u>\$ 778,956</u>	<u>\$ (509,502)</u>
Earnings (loss) per common share-diluted	<u>\$ 0.15</u>	<u>\$ (0.36)</u>	<u>\$ 0.39</u>	<u>\$ (0.26)</u>
Average shares outstanding-diluted	1,975,882	1,967,057	1,972,351	1,975,991

Condensed Balance Sheets

As of September 30, 2010 and December 31, 2009

	09/30/10 (unaudited)	12/31/09
Assets		
Current assets	\$ 7,452,140	\$ 6,417,488
Property, plant, and equipment, net	5,077,144	5,234,244
Intangible assets, net	<u>311,829</u>	<u>345,540</u>
	<u>\$ 12,841,113</u>	<u>\$11,997,272</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$831,383	\$809,186
Deferred income taxes	162,000	162,000
Long-term debt	—	—
Stockholders' equity	<u>11,847,730</u>	<u>11,026,086</u>
	<u>\$12,841,113</u>	<u>\$11,997,272</u>

Condensed Statements of Cash Flow (unaudited)

For the Nine Months Ended September 30, 2010 and 2009

	09/30/10	09/30/09
Net cash provided by operating activities	\$ 715,416	\$ 857,258
Net cash used in investing activities	(1,580,950)	(657,289)
Net cash provided by (used in) financing activities	<u>20,110</u>	<u>(123,844)</u>
Net increase (decrease) in cash	(845,424)	76,125
Cash at beginning of period	<u>1,304,586</u>	<u>901,738</u>
Cash at end of period	<u>\$ 459,162</u>	<u>\$ 977,863</u>

Unaudited interim financial information.

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-K and most recent Form 10-Q on file with the SEC.