
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10 - QSB

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2004

Commission file number 0-25159

LION, Inc.

(Exact name of small business issuer as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-2094375
(I.R.S. Employer Identification No.)

4700-42nd Ave. SW, Suite 430, Seattle, WA
(Address of principal executive offices)

98116
(Zip code)

(206) 577-1440
(Issuer's telephone number)

NA
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of May 5, 2004, there were 33,760,228 shares of the Company's common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes No

LION, Inc.
Form 10 – QSB
For the Quarter Ended March 31, 2004

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LION, Inc.
BALANCE SHEETS

ASSETS

	March 31, 2004 (Unaudited)	December 31, 2003
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,472,629	\$ 2,883,314
Accounts receivable, less allowance for doubtful accounts of \$107,000 and \$132,000 in 2004 and 2003, respectively	1,879,879	2,141,264
Other receivables	472,640	620,708
Prepaid expenses and other	265,339	361,975
Total current assets	6,090,487	6,007,261
PROPERTY AND EQUIPMENT - net	1,026,962	1,025,153
OTHER ASSETS		
Goodwill - net	273,955	273,955
Other assets	82,908	82,908
	\$ 7,474,312	\$ 7,389,277

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 351,458	\$ 189,727
Accrued liabilities	1,383,596	1,647,931
Current maturities of long-term obligations	77,510	82,452
Deferred revenue	1,172,134	1,240,166
Total current liabilities	2,984,698	3,160,276
LONG-TERM OBLIGATIONS, less current maturities	70,618	85,822
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Preferred stock - authorized, 5,000,000 shares of \$.001 par value, liquidation value \$900,000 at December 31,2003	-	1,500
Common stock - authorized, 50,000,000 shares of \$.001 par value	33,735	31,819
Additional contributed capital	12,074,726	11,812,248
Accumulated deficit	(7,689,465)	(7,702,388)
	\$ 4,418,996	\$ 4,143,179
	\$ 7,474,312	\$ 7,389,277

The accompanying notes are an integral part of these statements.

LION, Inc.

STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three months ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Revenues	\$ 3,877,393	\$ 1,786,720
Expenses		
Direct costs	1,464,350	315,556
Selling and marketing	496,579	573,468
General and administrative	1,165,150	539,653
Research and development	600,250	87,401
Depreciation and amortization	134,372	111,002
	<u>3,860,701</u>	<u>1,627,080</u>
Operating income	16,692	159,640
Other income (expense)		
Interest expense	(5,523)	(4,046)
Interest income	2,263	109
	<u>13,432</u>	<u>155,703</u>
Net income before tax	13,432	155,703
Income tax expense	509	-
NET INCOME	<u>\$ 12,923</u>	<u>\$ 155,703</u>
Net income per common share, basic and diluted	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

LION, Inc.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
	2004	2003
Cash flows from operating activities		
Net income	\$ 12,923	\$ 155,703
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	134,372	111,002
Stock options issued to employees and contractors	121,798	961
Common stock issued in lieu of cash compensation	-	9,658
Changes in assets and liabilities		
Accounts receivable	261,385	(78,126)
Other receivables	148,068	-
Prepaid expenses and other	96,636	(34,082)
Accounts payable	161,731	72,969
Accrued liabilities	(264,335)	52,201
Deferred revenue	(68,032)	25,024
Net cash provided by operating activities	604,546	315,310
Cash flows from investing activities		
Capitalized software development costs	(86,973)	(80,911)
Purchase of property and equipment	(49,208)	(41,995)
Net cash used in investing activities	(136,181)	(122,906)
Cash flows from financing activities		
Payments on notes payable and long-term obligations	(20,146)	(10,716)
Proceeds from issuance of common stock on exercise of stock options and warrants	141,096	-
Net cash provided by (used in) financing activities	120,950	(10,716)
Net increase in cash and cash equivalents	589,315	181,688
Cash and cash equivalents at beginning of period	2,883,314	403,917
Cash and cash equivalents at end of period	<u>\$ 3,472,629</u>	<u>\$ 585,605</u>
Supplemental non-cash investing and financing activities:		
Assets acquired under capital leases	\$ -	\$ 37,694

The accompanying notes are an integral part of these statements.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE A. ORGANIZATION AND DESCRIPTION OF BUSINESS

LION, Inc., dba LionInc.com, (the “Company” or “LION”), a Washington corporation, is a provider of advanced business solutions that streamline the mortgage loan fulfillment process in the mortgage industry. From *Leads to Loans to Capital Markets*, LION offers consistent, seamless business solutions to consumers, brokers, realtors, originators and lenders. LION provides an integrated technology platform offering online loan productivity, mortgage pipeline hedging and risk management, software development and data communications tools.

NOTE B. FINANCIAL STATEMENTS

The unaudited financial statements and related notes are presented in accordance with the instructions for interim financial statements in Rule 310(b) of Regulation S-B, and do not contain certain information included in the Company’s audited financial statements and notes for the fiscal year ended December 31, 2003. The information furnished reflects, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2004. The accompanying unaudited financial statements and related notes should be read in conjunction with the audited financial statements and the Form 10 – KSB of LION, Inc. and notes thereto, for its fiscal year ended December 31, 2003.

NOTE C. SIGNIFICANT ACCOUNTING POLICIES

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly-liquid instruments purchased with a remaining maturity of three months or less to be cash equivalents.

2. Revenue Recognition

LION generates revenue throughout the mortgage loan pipeline. Subscription revenues are generated from mortgage brokers and agents who are provided electronic access to a database of mortgage offerings by a multitude of lenders throughout the United States. LION also generates revenue from advertisers who pay marketing fees for ad banners, web site promotion, and lead generation. Additionally, fees are earned related to mortgage originator and lender web site development and hosting. Revenues from the LockPoint Xtra[®] and Pipeline Tools product lines are generated primarily from transaction fees on closed and locked loan volumes and fees for related website development and implementation.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Revenue Recognition - Continued

Subscription and service fees are recognized as revenue over the respective subscription periods or at the time the services are provided. The Company accounts for its internally developed software products for external licensing in accordance with Statement of Position 97-2, *Software Revenue Recognition*, and relevant Staff Accounting Bulletins. Revenue from licensing fees relating to the use of the LockPoint Xtra[®] product is recognized when all elements of the contract have been delivered to the customer. Revenue from monthly recurring charges from use of the Pipeline Tools product is recognized in the period in which the service is provided.

Deferred revenue is recorded on prepaid subscriptions for periods ranging from 3 to 12 months and on advance billings or cash received for contracts that have undelivered elements.

3. Accounts Receivable

The Company's accounts receivable are due from companies in the mortgage industry, including lenders, and mortgage brokers. Credit is extended to most customers, and generally collateral is not required. Payments for accounts receivable are due upon receipt of the invoice, but in some cases they may be due within 15 to 60 days depending on the products or services provided.

Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently collected on such accounts are credited to the allowance for doubtful accounts.

4. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are expensed as incurred. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. The estimated lives in determining depreciation are as follows:

Computer equipment	3 to 5 years
Computer software	3 to 5 years
Equipment	5 years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Capitalized Software Development Costs

The Company capitalizes software development costs intended for internal use. These costs are included in computer software in property and equipment and are amortized over a period of three years.

6. Use of Estimates

The Company's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, and require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Income Per Common Share

Basic income per share is based on the weighted average number of shares outstanding during each period. Potentially dilutive common stock equivalents are included in determining dilutive earnings per share. Common stock equivalents include preferred shares and options to purchase common stock. The weighted average number of common shares outstanding were 31,948,207 and 31,489,489 for the three months ended March 31, 2004 and 2003, respectively.

Preferred shares outstanding were included in the computation of diluted earnings per share for the three month period ended March 31, 2003. On March 25, 2004, 1.5 million preferred shares were converted to 1,541,550 shares of common stock and were included in the basic weighted average number of shares at March 31, 2004. Warrants and options to purchase 7,619,659 shares of common stock were included in the computation of diluted earnings per share at March 31, 2004, however, warrants and options to purchase 6,600,567 shares of common stock at March 31, 2003 were excluded because their exercise price was greater than the average market price of the common shares.

8. Advertising Costs

Advertising costs are expensed as incurred.

9. Research and Development Costs

All expenditures for research and development costs are expensed in the year incurred.

10. Income Taxes

The Company records deferred income tax assets and liabilities based upon the difference between the financial statement and income tax bases of assets and liabilities using enacted income tax rates. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. Income tax expense is the taxes paid and payable for the period and the change during the period in net deferred income tax assets and liabilities.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Stock Issued for Services

Issuances of shares of the Company's stock to employees or third-parties for compensation or services are valued using the closing price on the date of grant.

12. Stock Options

Effective January 1, 2003, the Company adopted the fair value recognition provision of FASB Statement No. 123, "Accounting for Stock-Based Compensation," prospectively, to all employee awards granted on or after January 1, 2003, pursuant to FASB Statement No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." Compensation expense is based on the fair value of the options at the respective grant dates utilizing the Black-Scholes model for estimating fair value. The Company recognizes compensation expense over the vesting period for these options granted. Under the intrinsic value method reported previously, no compensation expense had been recognized on options granted through December 31, 2002, as the exercise price of the options granted equaled the market price on the date of grant for all prior grants.

The following table illustrates the effect on net income and on net income per common share as if the fair value based method had been applied to all outstanding and unvested awards in each period:

	<u>Three months ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Net income, as reported	\$ 12,923	\$ 155,703
Add: Stock-based employee compensation expense included in reported net income	121,798	195
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards*	<u>(171,465)</u>	<u>(106,648)</u>
Pro forma net (loss) income	<u>\$ (36,744)</u>	<u>\$ 49,250</u>
Income (loss) per share:		
Basic and diluted – as reported	\$ -	\$ -
Basic and diluted – pro forma	\$ -	\$ -

* *All awards* refers to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994 – awards for which the fair value was required to be measured under Statement 123.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Fair Value of Financial Instruments

The fair value of financial instruments are accounted for in accordance with SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," which requires that the Company disclose the fair value of its financial instruments for which it is practicable to estimate fair value. The carrying amounts of cash and cash equivalents, prepaid expenses and other current assets, accounts receivables, accounts payable and accrued liabilities meeting the definition of a financial instrument approximate fair value because of the short term maturity of these instruments. The fair value of long-term debt approximates fair value based on the incremental borrowing rate currently available to the Company for loans with similar terms and maturities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

In December 2003, we completed a strategic acquisition that has accelerated our ability to deliver advanced business solutions to an expanded universe of larger, more diverse customers, and remain consistent with our focus on enhancing the Company's ability to attain its strategic objectives. These objectives include solidifying a reputation as a preferred business partner in the mortgage industry while generating sustainable growth in revenue and profitability. LION's acquisition of substantially all of the assets of Ignition Mortgage Technology Solutions, Inc. ("Ignition") represented an opportunity to acquire compatible products that extend our customer base, add incremental technology and intellectual property that would have required years of development and tens of millions of dollars of investment for LION to generate organically, and to assimilate a cadre of highly talented industry professionals.

The first quarter 2004 results were impacted significantly by this acquisition and are summarized as follows:

Condensed Results

	Three months ended March 31,	
	2004	2003
Revenues	\$ 3,877,393	\$ 1,786,720
Operating expenses	3,860,701	1,627,080
Operating income	16,692	159,640
Other expense - net	(3,260)	(3,937)
	13,432	155,703
Income tax expense	509	-
Net income	\$ 12,923	\$ 155,703
Net income per common share		
Basic	\$ -	\$ -
Diluted	\$ -	\$ -

Revenue was \$3.88 million, up \$2.09 million or 117% from \$1.79 million for the first quarter of 2003. Of this increase, \$1.95 million was attributable to the LockPoint Xtra® and Pipeline Tools products from the Ignition acquisition and approximately \$136,000 was from LION's original core business comprised of LION Pro, Mortgage 101 and Retail Websites. Net income for the first quarter was \$12,923 compared to \$155,703 for the same quarter in the prior year. The lower profit was anticipated as the cost of integrating the operations of LION and Ignition are expected to be prevalent throughout the first six to nine months of 2004. In addition, there were one-time legal, audit and compensation expenses during the first quarter that will not recur during the second quarter. During 2004, LION will be integrating product lines, facilities, datacenters and other infrastructure. While we expect increased profitability in the second quarter compared to the first quarter, we anticipate a more significant growth in profitability during the last half of 2004.

LION has been predominately a broker centric company. Due to the acquisition of Ignition assets, we have seen a shift to a more diversified customer base. The percent of revenue from lender customers has now increased to 56% in the first quarter of 2004 compared to 15% in the same quarter in the prior year.

This increase is due primarily to the LockPoint Xtra® and Pipeline Tools product lines. This revenue mix in the first quarter from lender and broker customers should be consistent throughout 2004.

LION's shift from a subscription based business model to a blend of subscription based and transaction based models continues to move forward. The subscription based model has performed well for LION in competitive markets with rising interest rates. The transaction based model allows LION to take advantage of higher loan origination volumes when interest rates are low. During the first quarter of 2004, revenues from LION's transaction based model comprised 54% of total revenues compared to only 4% in the same quarter in the prior year. We currently have no plan to achieve a certain percentage of our business as transaction based. Our intent is to have a blend of both models that will have scalability for the future.

During the first quarter, product releases and feature set upgrades were launched for all of our product lines; LION Pro Mortgage 101, Retail Websites, Lockpoint Xtra®, and Pipeline Tools. There were also terminations or non-renewals of two Pipeline Tools and one LockPoint Xtra® contracts that were offset by a strengthening of sales in all product lines during the latter half of the quarter. This included a sale of each product for LockPoint Xtra® and Pipeline Tools. The LockPoint Xtra® sale is intriguing as it will be LION's first sale that combines the functionality of LockPoint Xtra® and Retail Website technologies and tools. This will begin our process of combining the strength of the Ignition and LION product lines.

With the loss of two Pipeline Tools and one LockPoint Xtra® contracts in the first quarter, it is possible that revenue for the second quarter could be slightly less than first quarter. However, with strong sales in all product lines in the latter half of first quarter which have extended into the second quarter, the new launches of product releases and feature set upgrades on all products, and the ongoing integration of the Ignition and LION products, management still anticipates a doubling of revenue for 2004 compared to 2003.

BACKGROUND ON PRODUCTS AND SERVICES

During 2004, LION will be assessing and integrating the product lines of LION and Ignition so that it can better serve broader segments of the mortgage industry. As various phases of the product integration are completed, we will begin talking about our products and services differently. Currently, stand alone products include LION Pro, Mortgage 101, Retail Web Sites, LockPoint Xtra®, and Pipeline Tools. Any statistics or metrics noted below are as of March 31, 2004.

LION Pro, used by over 7,500 mortgage brokers nationwide, consists of LION Loan Search, LoanLink (subprime loan exchange platform), News Now (high-value market data) and Ratesheets on Demand (aggregated ratesheets). It is packaged and often private labeled for both large companies and origination teams along with individual or small mortgage brokers. Through this password protected product, originators can access one of the nation's largest databases of wholesale mortgage rate, fee, and program information to instantly price any mortgage loan. This database is updated daily in 77 regions in the country. There are 128 participating lenders and nearly 133,000 regionalized loan programs in the loan search database. Revenues from the LION Pro product line are generated from mortgage brokers and originators subscribing to the service, origination teams private-labeling this service for their own companies, and from participating lenders.

Mortgage 101 is an interactive service provided through LION's www.mortgage101.com consumer portal which connects potential mortgage applicants with a network of mortgage lenders who offer mortgage programs, rates, and services. Mortgage 101 also provides education to home buyers and

owners through informative articles, interactive calculators and real-time rate comparison technology. This product is one of the leading sources of leads for real estate financing by mortgage originators and is a preferred platform for them to market to their customers. Through the Mortgage 101 brand, LION has grown its co-branded real estate sites to over 39,000 which consist of realtors, real estate offices, relocation sites, associations, and city portals. Traffic from these branded and co-branded sites along with search engine activity averages over 400,000 unique visitors each month to this consumer portal. Revenues are generated from mortgage brokers or originators who participate in the pay-per-lead program or advertise through the Mortgage 101 site.

Retail Web Sites are offered to mortgage companies and individual originators to help educate consumers about mortgages, market their services to borrowers, generate more business, efficiently connect with service providers, and better serve their borrowers. This product is intended to create and foster relationships between consumers and mortgage originators while enabling mortgage companies and originators to more efficiently manage their online production channel and maximize the business value received from their online operations. Both template and custom design solutions deliver a combination of standard and custom content to over 2,700 web sites and over 4,700 user accounts. Revenues are generated from web site set up and monthly hosting fees along with fees for related functionality tools.

LockPoint Xtra® (“LPX”) is a Point-of-Sale and back office suite of products that provide rate distribution, float registration, real-time risk-based pricing and rate locking capabilities in a customer’s website, loan center or call center environment. The LockPoint Xtra® service is provided to lenders, investors and conduits that are LION licensees and gives them the ability to maintain their product and pricing rules and expressions, and to publish risk-based lockable loan prices to their customer base via LPX client applications. Revenues are generated from initial implementation fees, recurring monthly billings based on loan amount volumes with monthly minimums which may vary from customer to customer, and custom development services.

Pipeline Tools (“PT”) is a complete risk management and pipeline tracking system. PT gives customers the tools necessary to manage interest rate risk as well as fallout risk. PT tracks and examines current loan inventory, which allows lenders to extrapolate and manipulate data to make more informed trading decisions. Typical users of PT include secondary marketing executives, traders, risk managers, price desks, and shipping managers. Revenues are generated from initial implementation fees, recurring monthly billings based on loan amount volumes with monthly minimums which may vary from customer to customer, and custom development services.

DETAILED RESULTS OF OPERATIONS

REVENUES

	Three Months Ended March 31,	
	2004	2003
Revenues by product:		
Lion Pro	\$ 776,391	\$ 775,309
Mortgage 101	547,766	512,505
Retail web sites	598,744	498,906
LockPoint Xtra	764,177	-
Pipeline Tools	1,190,315	-
Total revenues	<u>\$ 3,877,393</u>	<u>\$ 1,786,720</u>

LION Pro revenues for first quarter 2004 were actually more successful than the increase over the same quarter in the prior year of \$1,082 might indicate. Included in this product line category are revenues from two alliance partnerships that were discontinued by the end of 2003. Revenues from these alliances declined approximately \$97,000 in the first quarter of 2004 compared to the same quarter in the prior year. Revenue from LION Pro Corporate, LION Pro Individual and lenders who participate in the underlying database increased approximately \$98,000 in the first quarter compared to the same quarter in the prior year. There are now 59 LION Pro Corporate accounts as of the end of March 2004 comprising over 2,500 users.

Mortgage 101 revenues, which are comprised of LION's subscription and pay-per-lead based lead programs along with broker ad banner programs, increased approximately \$35,261 or 7% over the same quarter in the prior year. This increase is lower than the trends LION saw during 2003 due to decreased loan volumes that resulted from lower refinance volumes in late 2003 and early 2004. LION's shift to a pay-per-lead model in 2003 is the main reason this product line has been able to continue its growth trend. During the first quarter of 2004, 53% of Mortgage 101 revenue was due to the transactional or pay-per-lead concept whereas only 5% was transactional based in the same quarter in the prior year. The Company will continue to be challenged to duplicate or exceed the Mortgage 101 revenues in 2004 as industry loan origination volumes will probably decline throughout 2004 as interest rates begin to climb. The refinement of LION's pay-per-lead model will play an important role in meeting this challenge.

Retail web site revenues increased approximately \$100,000 or 20% in the first quarter of 2004 compared to the same quarter in the prior year. The Company continues to successfully compete with this product line due to a suite of professional web site products designed to provide comprehensive internet based business solutions to mortgage companies of all sizes which feature both template based and customized design solutions.

LockPoint Xtra[®] and **Pipeline Tools** revenues are generated from initial implementation fees with new customers, recurring monthly billings based on loan amount volumes with monthly minimums which may vary from customer to customer, and custom development services. Revenues are primarily transactional based and are contributing successfully to LION's move to a more diversified mix of transactional based and subscription based revenues. The two products contributed approximately \$1,954,000 to the Company's revenue during the first quarter of 2004.

OPERATING EXPENSES

	Three Months Ended March 31,	
	2004	2003
Direct costs	\$ 1,464,350	\$ 315,556
Selling and marketing	496,579	573,468
General and administrative	1,165,150	539,653
Research and development	600,250	87,401
Depreciation and amortization	134,372	111,002
Total operating expenses	<u>\$ 3,860,701</u>	<u>\$ 1,627,080</u>

Direct Costs

Direct costs are comprised primarily of web site fulfillment, technology infrastructure support, product and contract support, product deployment/onboarding, quality control, and salaries related to the daily updates to rates, fees, and other loan program information. Direct costs increased to \$1,464,350 from \$315,556 for the three months ended March 31, 2004 and 2003, respectively. This represents an increase of \$1,148,794 or 364%. Direct costs as a percentage of revenues increased to 38% from 18% for the three months ended March 31, 2004 and 2003, respectively. Approximately 85% of the increase is attributable to the added infrastructure related to the Ignition asset purchase. LION now has two major data centers, one a primary and the other a redundant backup. In addition, the LockPoint Xtra® and Pipeline Tools products require allocated resources to deliver and maintain the underlying service to customers. Compared to LION's other products, the LockPoint Xtra® and Pipeline Tools products require more time and resources to deploy before a service is up and running. Once the infrastructure of LION and Ignition are integrated by the end of the second quarter or early in the third quarter of 2004, the Company should be able to reduce direct costs over the last half of 2004.

Selling and Marketing

Selling and marketing expenses are comprised of advertising and marketing costs, sales salaries and related support costs. Selling and marketing expenses decreased to \$496,579 from \$573,468 for the three months ended March 31, 2004 and 2003, respectively. This represents a decrease of \$76,889 or 13%. These expenses as a percentage of revenues were 13% and 32% for the three months ended March 31, 2004 and 2003, respectively. The decrease is primarily due to the elimination of approximately \$141,000 of sales, support and marketing efforts related to the two alliances that the Company was involved with during the first part of 2003 that were discontinued later in that year. This reduction was offset by an increase of approximately \$64,000 of selling and marketing expenses due to the positive efforts of LION's commissioned broker sales force and the addition of seasoned sales personnel related to the Ignition asset acquisition.

General and Administrative

General and administrative expenses are comprised of management and administrative salaries and related costs, legal and audit fees, outside consulting services, telecommunications expenses, occupancy costs, and other administrative related expenses. General and administrative expenses increased to \$1,165,150 from \$539,653 for the three months ended March 31, 2004 and 2003, respectively. This represents an increase of \$625,497 or 116%. General and administrative expenses as a percentage of revenues were 30% for both of the first quarters of 2004 and 2003. Approximately 84% of this increase in expense was directly related to the impact of the Ignition asset purchase. The increase was due primarily to the addition of a new CEO and Co-President of operations in December 2003, one-time incentive bonuses to various management personnel due to the successful completion of the Ignition asset purchase, various infrastructure integration efforts, and legal and audit fees incurred during the first quarter.

Research and Development

Research and development expenses are comprised primarily of engineering salaries and related costs. Research and development expenses increased to \$600,250 from \$87,401 for the three months ended March 31, 2004 and 2003, respectively. This represents an increase of \$512,849 or 587%. Research and development expenses as a percentage of revenues were 15% and 5% for the three months ended March 31, 2004 and 2003, respectively. Approximately 79% of this increase was attributable to research and development efforts on the LockPoint Xtra® and Pipeline Tools product lines. The remainder of the increase was due to efforts in the LION Pro, Mortgage 101 and Retail Website product lines. The Company will continue to focus on various key initiatives including but not limited to enhancing the conversion of consumer traffic into higher-value lead generation and developing new functionality to the retail web site and LION Pro suite of products. The LockPoint Xtra® and Pipeline Tools product lines have defined and established research and development functions in the Company's Gig Harbor, Washington and Sausalito, California locations. While the Company anticipates a higher commitment to research and development in 2004 compared to 2003 in order to support its product initiatives, it is also apparent that the underlying resources need to be evaluated so that they are used in the most efficient way for the individual product lines and also the integration of various components of these product lines. Extensive concept, design and implementation efforts will be necessary as the product lines of LION and Ignition are integrated in order to provide a seamless mortgage business solution to consumers, realtors, mortgage originators and lenders on a single integrated technology platform.

Depreciation and Amortization

Depreciation and amortization expense increased to \$134,372 from \$111,002 for the three months ended March 31, 2004 and 2003, respectively. This represents an increase of \$23,370 or 21%. The increase is due to additional depreciation related to the purchase of equipment, computers and software along with the addition of internally developed software for internal use.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its liquidity needs over the last several years through revenue generated from operations and equipment lease financing. During the first quarter of 2004, the Company also received proceeds through the exercise of warrants and stock options. With the recent increase in the Company's stock price, it is possible that additional proceeds could be generated during the remainder of 2004 through the exercise of in-the-money stock options.

At March 31, 2004, we had approximately \$3,473,000 in cash and cash equivalents and working capital of approximately \$3,106,000. The Company's liquidity position has never been better. The change in cash and cash equivalents is as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2003</u>	<u>2002</u>
Net cash provided by (used in)		
Operating activities	\$ 604,546	\$ 315,310
Investing activities	(136,181)	(122,906)
Financing activities	<u>120,950</u>	<u>(10,716)</u>
Net increase	<u>\$ 589,315</u>	<u>\$ 181,688</u>

Operating Activities

During the three months ended March 31, 2004, operating activities provided net cash of \$604,546. The net cash provided by operating activities was primarily attributable to revenue growth, primarily from the Retail Websites, LockPoint Xtra® and Pipeline Tools product lines and payments on accounts receivable, primarily from large accounts receivable balances acquired in the Ignition asset purchase, which were offset by a pay down of accrued liabilities related to legal, accounting and other fees associated with the acquisition of Ignition assets.

Investing Activities

During the three months ended March 31, 2004, investing activities used cash of \$136,181 and was primarily due to the capitalized portion of software development costs related to the enhancement of underlying infrastructure delivering the LION Pro Corporate product line and upgrades to computer hardware and software.

Financing Activities

During the three months ended March 31, 2004, net proceeds from financing activities were \$120,950. Warrants and stock options were exercised during the quarter totaling approximately \$141,000. This was offset by payments totaling approximately \$20,000 on notes payable and capitalized lease obligations related to the acquisition of application and database software, computers, servers, furniture and telecommunications systems upgrades over the previous two years. Due to the Company's present stock price and existence of many stock options that are in-the-money, the exercise of stock options could continue to be source of funds throughout 2004.

Commitments and Capital Expenditures

The Company has no material commitments for capital expenditures for 2004. The acquisition of Ignition assets included two major datacenters in Sunnyvale, California and Seattle, Washington, but equipment and software used to operate the datacenters is up to date. During 2004, a replacement program of this equipment will be developed and during 2005 and 2006 will be implemented.

Overall Liquidity and Capital Resources

It is management's assessment that its liquidity and capital resource needs for its growth plans for 2004 and extending into 2005 will be adequately met through its working capital and cash flows from operations.

FACTORS THAT MAY AFFECT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. All statements that express expectations and projections with respect to future matters may be affected by changes in the Company's strategic direction, as well as developments beyond the Company's control. We cannot assure you that our expectations will necessarily come to pass. Actual results could differ materially because of issues and uncertainties such as those listed below and elsewhere in this Report, and in the other documents we file with the SEC. These factors, among others, may adversely impact and impair our business and should be considered in evaluating our financial outlook.

We have a limited history of profits and our future profitability remains uncertain. In addition, financial results for any particular period will not predict results for future periods.

We are working toward a goal of revenue growth and sustained profitability. Annual revenues increased to \$8.1 million from \$6.4 million for 2003 and 2002, respectively. Revenue increased to \$3,877,393 for the first quarter of 2004 compared to \$2,646,692 for the prior quarter and \$1,786,720 for the first quarter of 2003. The Company anticipates strong growth in revenue in 2004 compared to 2003. While we sustained a loss in 2002 totaling approximately \$109,000, we have had seven consecutive quarters of profitability beginning the third quarter of 2002 through the first quarter of 2004. Due to the acquisition of most of the assets of Ignition in December 2003, the Company will be faced with additional costs during the first six months of 2004 and perhaps longer while it integrates and streamlines its facility, telecommunications, datacenter and other infrastructure. Until this integration is complete, profitability will be constrained.

Although we currently anticipate that 2004 will be a profitable year, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets, including uncertainty of revenues, markets, profitability and the need to raise capital to fund our ongoing operations. We cannot assure you that we will be successful in addressing these risks or that we can be operated profitably, which depends on many factors, including the success of our marketing program, control of expenses levels and the success of our business activities. Our future operating results will depend on a variety of factors, including those discussed in the other factors set forth below.

We are largely dependent on key personnel who may not continue to work for us.

We are substantially dependent on the continued services of our key personnel, including our officers, engineers and other significant employees. These individuals have acquired specialized knowledge and skills with respect to LION. We are continuing to create the redundancies that will reduce the reliance on these individuals, but have not completed this task and will not for at least the remainder of 2004 if not longer. Furthermore, we have not entered into employment agreements with these significant employees except for our CEO, Co-President of Sales and Marketing, Co-President of Operations, CFO and the product manager for our Mortgage 101 product group. If any of these individuals were to leave LION unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. We provide stock options, which currently serve to retain and motivate key employees as they become vested in their initial stock option grants. While management personnel are typically granted additional stock options, which will usually vest over a period of four years subsequent to their hire date to provide additional incentive to remain at LION, the initial option grant is typically the largest and an employee may be more likely to leave

our employ upon completion of the vesting period for the initial option grant. We expect that we will need to attract, train, retain and motivate additional technical, managerial, marketing and customer support personnel. Competition for these personnel may be intense, particularly for individuals with suitable experience. We face the risk that if we are unable to attract and integrate new personnel, or retain and motivate existing personnel, our business will be adversely affected.

We are substantially dependent on a limited number of significant customers.

Our success depends on our ability to expand, retain and enhance our advanced business solution customers. Our expanded product line as a result of the acquisition of Ignition assets carries with it the risk that our revenues may be dependent on a limited number of significant customers, rather than a broad-based broker and customer network. As part of the acquisition, LION became the assignee of certain customer contracts, most of which have initial contract periods or renewals expiring throughout 2004 and 2005 and typically have renewable successive one-year terms and in a few cases successive two-year terms. Revenues from these contracts are expected to comprise over 40% of the Company's anticipated revenues in 2004. While we did have one LockPoint Xtra customer and two Pipeline Tools customers discontinue their contracts with us during the first quarter of 2004, we also had two new sales during the quarter for one LockPoint Xtra and one Pipeline Tools. Revenue recognition from these two new sales probably will not be reported until sometime during the third quarter. While we have no reason to believe the other large contracts will not be renewed, there can be no assurance that these former Ignition customers will renew their contracts with LION, or that we will be able to attract new customers at rates sufficient to maintain a stable or growing revenue base. If we are unsuccessful in enrolling new customers to equalize the attrition rate, if any, of existing Ignition customers, our overall share of the advanced business solution market could be reduced, and consequently our business operating results and financial condition may be materially adversely affected.

Our operations may be vulnerable to disruption problems.

We do not have multiple site capacity for our LION Pro, Mortgage 101 or Retail Web Site services, however, we do have this in place for our LockPoint Xtra® and Pipeline Tools services. We are in the process of developing multiple site capacity for all of our services, but this will not be completed until some time late in 2004. We have in place comprehensive data tape backup procedures for our operational and administrative databases. Our replication software provides a high level of hardware backup for the database by duplicating our database across several powerful servers. However, despite protective measures, our operations could be vulnerable to damage from floods, fire, earthquakes, power loss, telecommunications failures, break-ins, terrorism, and similar events. The prospect of such unscheduled interruptions is possible in the foreseeable future, and we are unable to predict their occurrence, duration or cessation.

Despite the implementation of security measures which are constantly updated, our systems may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We could experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. Unauthorized access might lead to interruptions, delays or cessation in service to subscribers or deter potential subscribers. Although we intend to constantly update industry-standard security measures, these measures have been circumvented in the past, and there can be no assurance that measures we adopt will not be circumvented in the future. We do not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any of these events. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to our subscribers, which could have a materially adverse affect on our business, operating results and financial condition.

Volume of shares eligible for sale could impair our stock price and hinder future financing efforts.

As of March 31, 2004, virtually all of the 33,735,228 outstanding shares of common stock held by existing shareholders were currently eligible for resale in the open market, subject in certain cases to the volume and other conditions of Rule 144. There are no contractual restrictions on the resale of the outstanding common stock. The sale in the public market of these shares of common stock, or the perception that these sales may occur, may depress prevailing market prices of the common stock or hinder potential future financing efforts.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During March 2004, the Company sold an aggregate of 333,334 shares of common stock to two existing shareholders of the Company at a purchase price of \$.40 per share in connection with the exercise of outstanding warrants for an aggregate purchase price of \$133,334. The investors were accredited or sophisticated purchasers. The Company issued the shares in reliance upon the exemption from registration under Section 4(2) of the Securities Act. The recipients of securities represented their intentions to acquire the securities for investment only, and not with a view to sell, or for sale in connection with any resale or distribution. Appropriate legends were affixed to the share certificates issued in the transactions. The offering was made without the use of any general solicitation or advertising. All recipients had access to all material information concerning the Company.

During March 2004, the Company's two preferred shareholders converted all of their 1.5 million shares of Series A Preferred Stock into 1,541,550 shares of common stock. The Company issued the common stock in reliance upon the exemptions from registration provided by Sections 3(a)(9) and 4(2) of the Securities Act. The investors were accredited purchasers and had access to all material information concerning the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

(b) Reports on Form 8-K

The following report on Form 8-K was filed during the quarter ended March 31, 2004:

<u>Date of the Report</u>	<u>Item Reported</u>
February 23, 2004	Acquisition of certain assets of Ignition Mortgage Technology Solutions, Inc., containing audited financial statements of Ignition and unaudited <i>pro forma</i> financial information

In addition, we furnished to the SEC reports on Form 8-K on February 2, 2004 and February 26, 2004. The February 2, 2004 Form 8-K was for the purpose of furnishing a letter to shareholders from the Chairman of the Company. The February 26, 2004 Form 8-K was for the purpose of the press release announcing our financial results for the fiscal quarter and year ended December 31, 2003.

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LION, Inc.
(Registrant)

Date: May 17, 2004

By: /s/ Randall D. Miles
Randall D. Miles
Chief Executive Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

CERTIFICATION

I, Randall D. Miles, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of LION, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 17, 2004

/s/ Randall D. Miles
Randall D. Miles
Chief Executive Officer

CERTIFICATION

I, Steve Thomson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of LION, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 17, 2004

/s/ Steve Thomson
Steve Thomson
Chief Financial Officer

**CERTIFICATION PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

**by the
Chief Executive Officer and Chief Financial Officer**

In connection with the Quarterly Report of LION, Inc., a Washington corporation (the "Company"), on Form 10-QSB for the period ended March 31, 2004 as filed with the Securities and Exchange Commission (the "Report"), each of Randall D. Miles, Chief Executive Officer, and Steve Thomson, Chief Financial Officer, of the Company, hereby certifies pursuant to §906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350), that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

/s/ Randall D. Miles
Randall D. Miles

/s/ Steve Thomson
Steve Thomson

May 17, 2004

May 17, 2004