
**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 September 30, 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)

As of November 9, 2004, approximately 37,349,028 shares of the Company's common stock were outstanding.

LION, Inc.
Form 10 – QSB
For the Quarter Ended September 30, 2004

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LION, Inc.
BALANCE SHEETS

ASSETS

	September 30, 2004 (Unaudited)	December 31, 2003
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,612,081	\$ 2,883,314
Accounts receivable, less allowance for doubtful accounts of \$68,000 and \$132,000 in 2004 and 2003, respectively	1,964,145	2,141,264
Other receivables	-	620,708
Prepaid expenses and other	645,032	361,975
Total current assets	6,221,258	6,007,261
PROPERTY AND EQUIPMENT – net	968,509	1,025,153
OTHER ASSETS		
Goodwill - net	273,955	273,955
Other assets	82,908	82,908
	<u>\$ 7,546,630</u>	<u>\$ 7,389,277</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 302,188	\$ 189,727
Accrued liabilities	992,635	1,647,931
Current maturities of long-term obligations	66,937	82,452
Deferred revenue	1,121,758	1,306,224
Total current liabilities	2,483,518	3,226,334
LONG-TERM OBLIGATIONS, less current maturities	38,611	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	34,244	31,819
Additional contributed capital	12,255,445	11,812,248
Accumulated deficit	(7,265,188)	(7,768,446)
	<u>5,024,501</u>	<u>4,077,121</u>
	<u>\$ 7,546,630</u>	<u>\$ 7,389,277</u>

The accompanying notes are an integral part of these statements.

LION, Inc.

STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Revenues	\$ 3,574,211	\$ 1,843,754	\$ 11,020,486	\$ 5,435,424
Expenses				
Direct costs	1,276,822	400,697	4,069,452	1,054,634
Selling and marketing	477,296	564,463	1,525,961	1,724,543
General and administrative	993,968	602,752	3,058,395	1,707,804
Research and development	611,194	57,435	1,908,001	235,964
Depreciation and amortization	152,537	124,937	431,119	350,673
	<u>3,511,817</u>	<u>1,750,284</u>	<u>10,992,928</u>	<u>5,073,618</u>
Operating income	62,394	93,470	27,558	361,806
Other income (expense)				
Interest expense	(3,615)	(4,987)	(14,280)	(13,965)
Interest income	2,470	924	6,911	2,023
Other income	-	-	433,388	-
	<u>-</u>	<u>-</u>	<u>433,388</u>	<u>-</u>
Net income before tax	61,249	89,407	453,577	349,864
Income tax benefit - net	<u>(51,690)</u>	<u>-</u>	<u>(49,681)</u>	<u>-</u>
NET INCOME	<u>\$ 112,939</u>	<u>\$ 89,407</u>	<u>\$ 503,258</u>	<u>\$ 349,864</u>
Net income per common share,				
Basic	<u>\$ -</u>	<u>\$ -</u>	<u>\$.02</u>	<u>\$.01</u>
Diluted	<u>\$ -</u>	<u>\$ -</u>	<u>\$.01</u>	<u>\$.01</u>

The accompanying notes are an integral part of these statements.

LION, Inc.

STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2004	2003 (Restated)
Cash flows from operating activities		
Net income	\$ 503,258	\$ 349,864
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	431,119	350,673
Write off of capitalized software development costs	13,954	-
Compensation expense for stock options issued to employees and contractors	205,651	15,831
Common stock issued in lieu of cash compensation	-	19,636
Common stock issued for services received	60,000	-
Changes in assets and liabilities		
Accounts receivable	177,119	(45,647)
Other receivables	620,708	-
Prepaid expenses and other	(283,057)	(45,445)
Accounts payable	112,461	11,869
Accrued liabilities	(655,296)	104,142
Deferred revenue	(184,466)	91,856
Net cash provided by operating activities	1,001,451	852,779
Cash flows from investing activities		
Capitalized software development costs	(247,885)	(229,615)
Purchase of property and equipment	(140,544)	(77,142)
Net cash used in investing activities	(388,429)	(306,757)
Cash flows from financing activities		
Payments on notes payable and long-term obligations	(62,726)	(39,387)
Proceeds from issuance of common stock on exercise of stock options and warrants	178,471	-
Net cash provided by (used in) financing activities	115,745	(39,387)
Net increase in cash and cash equivalents	728,767	506,635
Cash and cash equivalents at beginning of period	2,883,314	403,917
Cash and cash equivalents at end of period	\$ 3,612,081	\$ 910,552
Supplemental non-cash investing and financing activities:		
Stock issued net of shares repurchased	\$ 14,000	\$ -
Assets acquired under capital leases	\$ -	\$ 139,255

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. (“LION”), a Washington corporation, is a provider of advanced business solutions that streamline the mortgage loan fulfillment process in the mortgage industry. 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/A 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 through the sale of technology, products and services developed to assist in the management of 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.

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.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Revenue Recognition - Continued

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.

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.

LION, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

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 33,317,368 and 31,620,324 for the nine months ended September 30, 2004 and 2003, respectively, and 34,096,314 and 31,717,978 for the three months ended September 30, 2004 and 2003, respectively.

Preferred shares outstanding were included in the computation of diluted earnings per share for the nine and three month periods ended September 30, 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 September 30, 2004. Stock options to purchase 3,081,688 and 603,176 shares of common stock were included in the computation of diluted earnings per share for the three months ended September 30, 2004 and 2003, respectively. Stock options to purchase 3,081,688 and 429,958 shares of common stock were included in the computation of diluted earnings per share for the nine months ended September 30, 2004 and 2003, respectively.

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 period 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 applied previously, no compensation expense has 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:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
		(Restated)		(Restated)
Net income, as reported	\$ 112,939	\$ 89,407	\$ 503,258	\$ 349,864
Add: Stock-based employee compensation expense included in reported net income	54,476	10,172	205,651	14,809
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards*	(80,125)	(79,609)	(287,817)	(292,929)
Pro forma net income	<u>\$ 87,290</u>	<u>\$ 19,970</u>	<u>\$ 421,092</u>	<u>\$ 71,744</u>
Net income per share:				
Basic – as reported	<u>\$ -</u>	<u>\$ -</u>	<u>\$.02</u>	<u>\$.01</u>
Diluted – as reported	<u>\$ -</u>	<u>\$ -</u>	<u>\$.01</u>	<u>\$.01</u>
Basic and diluted – pro forma	<u>\$ -</u>	<u>\$ -</u>	<u>\$.01</u>	<u>\$ -</u>

* 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.

NOTE D. SUBSEQUENT EVENT - ACQUISITION OF TUTTLE RISK MANAGEMENT SERVICES

On October 13, 2004, LION, Inc. acquired Tuttle Risk Management Services Inc. ("TRMS") a provider of mortgage pipeline risk management services for mortgage companies and financial institutions. TRMS is also a registered Commodity Trading Advisor. The acquisition was completed by merging TRMS with and into LION's wholly-owned subsidiary, LION Acq. LLC, a Washington limited liability company. As a result of these transactions, TRMS became a wholly-owned subsidiary of LION operating as a limited liability company under the name Tuttle Risk Management Services LLC. The acquisition was consummated pursuant to the terms of the Agreement of Merger dated October 12, 2004. The acquisition is intended to qualify as a "reorganization" under Section 368(a) of the Internal Revenue Code of 1986, as amended. For further information, see the Company's Form 8-K as filed with the Securities and Exchange Commission on October 18, 2004.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

A major objective of LION throughout the first nine months of 2004 has been to integrate its historical product lines with the LockPoint Xtra® and Pipeline Tools product lines acquired from Ignition Mortgage Technology Solutions ("Ignition") in December 2003. Concurrently, LION has been developing new web-based technology for the retail and wholesale channels for one of our customers. This customer project was substantially complete by the end of the third quarter 2004. These efforts along with our on-going research and development initiatives led to the announcement in October 2004 of our launching of a new mortgage technology productivity suite which offers a complete marketing, pricing and delivery solution for retail, wholesale and correspondent mortgage origination channels. This product suite consists of corporate websites, productivity software, LockPoint® Server, and Pipeline Tools technology which provide a consumer-facing interview and application process known as LoanFinder, streamlined point-of-sale to back-office mortgage solutions, and centralized solutions to manage loan origination products and pricing. LION has signed 5 beta customers for this new product suite with completion dates anticipated to occur throughout fourth quarter 2004 and first quarter 2005. Once key milestones are achieved on these 5 beta customers, the new product suite will be made available to all prospective customers.

On October 13, 2004, LION acquired Tuttle Risk Management Services Inc. ("TRMS"), a privately held provider of mortgage pipeline risk management services for mortgage companies and financial institutions. The acquisition, the second in ten months for LION, continues the Company's strategy to extend its reach in providing end-to-end productivity and efficiency solutions to the mortgage industry. Since 2000, TRMS has licensed LION's Pipeline Tools as its risk management technology. The acquisition facilitates the vertical integration of our risk management technology business with TRMS' risk management advisory services which are provided to over 50 customers. TRMS will operate as a wholly owned subsidiary of LION and will retain its name. Of approximately \$3,710,000 of LION's Pipeline Tools revenue recorded for the nine months ended September 30, 2004, approximately \$2,541,000 or 68% is provided by the pre-acquisition relationship between LION and TRMS. In 2005, LION anticipates that the additional revenue TRMS will contribute to LION will approximate \$2.5 to \$3.5 million on an annualized basis and be accretive to earnings. For further information, see the Company's Form 8-K as filed with the Securities and Exchange Commission on October 18, 2004.

Condensed Summarized Results

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Revenues	\$ 3,574,211	\$ 1,843,754	\$ 11,020,486	\$ 5,435,424
Operating income	\$ 62,394	\$ 93,470	\$ 27,558	\$ 361,806
Net income	\$ 112,939	\$ 89,407	\$ 503,258	\$ 349,864
Net income per share				
Basic	\$ -	\$ -	\$.02	\$.01
Diluted	\$ -	\$ -	\$.01	\$.01

The December 2003 acquisition of certain assets of Ignition continues to influence the quarterly operating results of the Company. Revenues are up 94% for third quarter 2004 over third quarter 2003 and 103% for the first nine months of 2004 compared to the same period in the prior year. Revenues for the third quarter 2004 have remained relatively flat compared to the previous quarter.

Our revenue mix includes LION's traditional business lines of Mortgage 101, our consumer lead generation business, LION Pro, which includes LION's search engine and extensive database of loan programs, and Retail Web Sites, our marketing and website design and hosting business. LION's revenues from these product lines improved to \$1.9 million for the quarter, or 55% of total revenues, compared to \$1.8 million for the same quarter in the prior year, an increase of 6%, and for the first nine months of 2004 improved to \$5.8 million or 53% of total revenues compared to \$5.4 million in the prior year, an increase of 7%.

Our revenue mix also includes LockPoint Xtra®, our electronic mortgage rate locking and file transfer technology, and Pipeline Tools, our interest rate risk management tool, both of which have been part of LION's operations since December 2003. Revenue from these two products represents \$1.6 million or 45% of total revenues for the third quarter and \$5.2 million or 47% of total revenues for the first nine months of 2004.

Operating expenses have declined in each of the last two quarters, decreasing approximately \$240,000 in the second quarter compared to the first quarter and another \$109,000 in the third quarter just ended compared to the second quarter. While we expect operating expenses to continue to decline in the fourth quarter, not including the impact from the acquisition of TRMS, we still anticipate operating expenses to remain high compared to the present revenue base as we continue to integrate LION and Ignition infrastructure and product lines.

Operating and net income have both improved in the third quarter compared to the second quarter of 2004. Most of the improvement has been due to the reduction in operating expenses. Stock option expense continues to have more of an impact on operating results in 2004 compared to 2003. Stock option expense increased to \$54,476 from \$10,172 for the three months ended September 30, 2004 and 2003, respectively, and increased to \$205,651 from \$15,831 for the 9 months ended September 30, 2004 and 2003, respectively. In addition, we received a one-time income tax benefit in the third quarter of 2004 which resulted in a net income tax benefit of \$51,690 and \$49,681, respectively, for the three and nine month periods ended September 30, 2004. Net income for the nine months ended September 30, 2004 includes other income of \$433,000 net of legal expenses related to a settlement with our insurance carrier for the reimbursement of defense and indemnity costs related to litigation completed in June 2002.

We have continued to improve our working capital position throughout 2004 increasing from \$2.8 million at the end of 2003 to \$3 million at the end of first quarter, to \$3.5 million at the end of second quarter, and to \$3.7 million at the end of third quarter. Our current cash balance at the end of the third quarter has remained stable at \$3.6 million. As a result of the acquisition of TRMS and positive cash flows anticipated from fourth quarter operations, we expect that our cash position should grow to between \$4 million and \$4.5 million by year end.

BACKGROUND ON PRODUCTS AND SERVICES

As mentioned above, LION continues to integrate the product lines of LION and Ignition so that it can better serve broader segments of the mortgage industry. In addition, we will also be vertically integrating our Pipeline Tools product line with the TRMS mortgage pipeline risk management services beginning the fourth quarter of 2004 and during the first part of 2005. As various phases of the product integrations are completed, we will begin talking about our products and services differently. This overall change in our formal presentation of products and services may not occur until the end of 2004 and will be an on-going process throughout 2005. Currently, stand alone products, not including those related to the TRMS acquisition, include LION Pro, Mortgage 101, Retail Web Sites, LockPoint Xtra®, and Pipeline Tools. Any statistics or metrics noted below are as of September 30, 2004.

LION Pro, used by 8,200 mortgage brokers nationwide, consists of LION Loan Search, LoanLink (subprime loan exchange platform), News Now (high-value market data) and Ratesheets on Demand (aggregated mortgage 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 121 participating lenders and 148,000 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 originators 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 one of the preferred platforms for them to market to their customers. Through the Mortgage 101 brand, there are over 46,500 co-branded real estate sites 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 approximately 350,000 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 approximately 2,800 web sites and approximately 4,900 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 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 provides customers with the tools necessary to manage interest rate 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 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 September 30,		Nine months ended September 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Revenues by product				
Lion Pro	\$ 815,081	\$ 702,573	\$ 2,345,815	\$ 2,198,274
Mortgage 101	474,616	599,115	1,545,816	1,692,858
Retail Web Sites	658,699	542,066	1,898,838	1,544,292
Traditional LION products	1,948,396	1,843,754	5,790,469	5,435,424
LockPoint Xtra	334,614	-	1,519,715	-
Pipeline Tools	1,291,201	-	3,710,302	-
Traditional Ignition products	1,625,815	-	5,230,017	-
Total revenues	<u>\$ 3,574,211</u>	<u>\$ 1,843,754</u>	<u>\$ 11,020,486</u>	<u>\$ 5,435,424</u>

LION Pro revenues are comprised of LION Pro Corporate, LION Pro Individual, and lenders who participate in the underlying database. Revenues continued to improve quarter over quarter and for the three and nine month periods ended September 30, 2004 compared to the same periods in the prior year primarily due to the success of the LION Pro Corporate product line. There are now 111 LION Pro Corporate accounts comprising nearly 3,300 users.

Mortgage 101 revenues, which are comprised of LION's subscription and pay-per-lead based lead programs along with broker ad banner programs, continued to decrease quarter over quarter and for the three and nine month periods ended September 30, 2004 compared to the same periods in the prior year primarily due to declining loan volumes. LION's shift to a pay-per-lead model in 2003 provided the foundation to generate sustainable revenue in periods of rising rates. During the third quarter of 2004, 60% of Mortgage 101 revenue was due to the transactional or pay-per-lead concept whereas only 4% was transactional based in the same quarter in the prior year. For the nine month period ended September 30, 2004, 57% of the revenue was transactional based and only 4% in the same period in the prior year. The Company will continue to be challenged to duplicate or exceed the Mortgage 101 revenues quarter over quarter in 2004 as industry loan origination volumes are expected to continue to decline throughout the remainder of the year. The ongoing refinement of LION's pay-per-lead model will play an important role in meeting this challenge.

Retail Web Site revenues increased approximately \$117,000 or 22% in the third quarter of 2004 compared to the same quarter in the prior year and approximately \$355,000 or 23% for the nine month period ended September 30, 2004. As discussed above, this product line 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. The Company will continue to add functionality and efficiency to this product line so that it will continue to compete successfully with similar web site products in the industry.

LockPoint Xtra[®] revenues are generated from 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 transaction based and are dependent on a limited number of significant customers. Revenues decreased from approximately \$764,000 in first quarter 2004 to approximately \$421,000 for the second quarter and have stabilized at \$335,000 in the third quarter. The decrease in the second quarter was primarily due to a negotiated customer contract termination which recorded \$160,000 of revenue in the first quarter that did not recur in the second quarter, a customer contract that did not renew at the beginning of the second quarter totaling \$60,000 per quarter, and reduced loan volumes flowing through the LPX product line. The decrease in the third quarter was primarily due to decreased custom development work with an existing customer that should strengthen sometime during the fourth quarter of 2004 or the first quarter of 2005.

Loan volumes in the LPX product line decreased from approximately \$1.9 billion in the first quarter to approximately \$690 million in the second quarter and again to approximately \$181 million in the third quarter. The decrease in loan volumes in the third quarter is primarily due to Freddie Mac running their loan volumes through their own internally developed systems at the beginning of the third quarter. Freddie Mac's plans to begin processing their loans through their own systems sometime during 2004 were disclosed to LION when the Ignition assets were acquired in December 2003.

The LPX product line lost sales momentum during 2003 prior to the Company acquiring it from Ignition due to an inability to execute contracts with prospective customers in the absence of an identified buyer for Ignition. LION reinitiated a sales effort for LPX following its acquisition. However, the sales cycle is anywhere from six to nine months with the implementation period prior to launch approximating several months. One new sale was made at the end of first quarter, and revenues have begun to be recognized during the third quarter. Within the existing sales pipeline, there are several prospects that could become new sales by the end of 2004 or the beginning of 2005. To compensate for this long sales cycle, a large portion of the Company's research and development efforts includes the incorporation of LPX technology into existing and future product lines. An example of this is discussed above in the first paragraph of this Item 2.

Pipeline Tools revenues are generated from implementation fees from 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 increased to approximately \$1,229,000 in second quarter 2004 from approximately \$1,190,000 for the first quarter and increased again to \$1,291,000 in the third quarter. Loan volumes in the Pipeline Tools product line increased to approximately \$30.8 billion in the second quarter from approximately \$23.9 billion in the first quarter but decreased to \$23 billion in the third quarter primarily due to Freddie Mac processing their loan volumes through their own internally developed systems at the beginning of the third quarter. As stated above for LPX, this anticipated move by Freddie Mac had been disclosed to LION at the time the Ignition assets were acquired in December 2003. Any revenue loss related to Freddie Mac has been more than offset by increased revenues through TRMS during the third quarter. Loan volumes are expected to decrease during the remainder of 2004, but revenue from this product line is expected to remain stable or increase through the addition of more customers.

OPERATING EXPENSES

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Direct costs	\$ 1,276,822	\$ 400,697	\$ 4,069,452	\$ 1,054,634
Selling and marketing	477,296	564,463	1,525,961	1,724,543
General and administrative	993,968	602,752	3,058,395	1,707,804
Research and development	611,194	57,435	1,908,001	235,964
Depreciation and amortization	152,537	124,937	431,119	350,673
Total operating expenses	<u>\$ 3,511,817</u>	<u>\$ 1,750,284</u>	<u>\$ 10,992,928</u>	<u>\$ 5,073,618</u>

Direct Costs

Direct costs are comprised primarily of web site fulfillment, technology infrastructure support, product and contract support, and product deployment. Direct costs increased 219% and 286% for the three and nine months ended September 30, 2004, respectively, compared to the same periods in 2003. A majority of the increase is attributable to the added infrastructure related to the Ignition asset purchase in December 2003. 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 specialized 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 fully delivered to the customer. Integration of the LION and Ignition infrastructures will continue through the remainder of 2004 and perhaps the early part of 2005. These integration efforts have caused direct costs to decrease by approximately \$51,000 in the third quarter compared to the second quarter. Once completed, the Company anticipates further reductions in direct costs.

Selling and Marketing

Selling and marketing expenses are comprised primarily of advertising and marketing costs, sales salaries and related support costs. Selling and marketing expenses decreased 15% and 12% for the three and nine months ended September 30, 2004, respectively, compared to the same periods in 2003. The decrease is primarily due to the elimination 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 and the reallocation of certain sales support resources to technical support roles in the web site fulfillment area. This reduction was offset by an increase in selling and marketing expenses due to the efforts of LION's commissioned broker sales force, the addition of seasoned sales personnel related to the Ignition asset acquisition, increased advertising, and additional tradeshow participation. Selling and marketing expenses decreased approximately \$75,000 in the third quarter compared to the second quarter due to a realignment and restructuring of the broker and lender sales force and participation in less costly tradeshows.

General and Administrative

General and administrative expenses are comprised primarily of management and administrative salaries and related costs, legal and audit fees, outside consulting services, certain telecommunications expenses, occupancy costs, and other administrative related expenses. General and administrative expenses increased 65% and 79% for the three and nine months ended September 30, 2004, respectively, compared to the same periods in 2003. A majority of this increase in expense was directly related to the impact of the Ignition asset purchase with 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, additional investor relations efforts, and additional stock option, legal and audit fees. These expenses also increased approximately \$95,000 in the third quarter compared to the second quarter due to added resources in the human resource area, increased efforts in investor relations, and fees related to a SAS 70 audit of the LPX and Pipeline Tools product lines. Administrative expense is expected to decrease in the fourth quarter compared to the third quarter.

Research and Development

Research and development expenses are comprised primarily of engineering salaries and related costs. Research and development expenses increased 964% and 709% for the three and nine months ended September 30, 2004, respectively, compared to the same periods in 2003. As a percent of revenues, these expenses increased to approximately 17% for the 2004 periods compared to approximately 3% to 4% for the periods in 2003. The increase was primarily attributable to research and development efforts in the LockPoint Xtra®, Pipeline Tools, Retail Web Site and Mortgage 101 product lines. 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. The Company anticipated a higher commitment to research and development in 2004 compared to 2003 in order to support its product initiatives as well as 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. Research and development expenses actually decreased approximately \$85,000 in the third quarter compared to the second quarter, mostly due to a decrease in the need for Pipeline Tools resources. While the Company recognizes that the overall research and development expenses are high compared to revenues, it views these efforts at this point in time as critical in order to have a positive impact in supporting the development and delivery of the Company's technology, products and services in the mortgage industry in 2005 and beyond.

Depreciation and Amortization

The increase in depreciation and amortization expense for the three and nine month periods ended September 30, 2004 compared to the same periods in the prior year 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.

Other income

As noted above, net income for the nine months ended September 30, 2004 includes other income of \$433,000 net of legal expenses related to a settlement with our insurance carrier for the reimbursement of defense and indemnity costs related to litigation completed in June 2002.

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 nine months of 2004, the Company also received proceeds from the exercise of warrants and stock options and the settlement with our insurance carrier for the reimbursement of 2002 litigation costs.

At September 30, 2004, we had approximately \$3,612,000 in cash and cash equivalents and approximately \$3,738,000 of working capital. The Company's liquidity position has never been stronger. The change in cash and cash equivalents is as follows:

	<u>Nine months ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
Net cash provided by (used in)		
Operating activities	\$ 1,001,451	\$ 852,779
Investing activities	(388,429)	(306,757)
Financing activities	<u>115,745</u>	<u>(39,387)</u>
Net increase	<u>\$ 728,767</u>	<u>\$ 506,635</u>

Operating Activities

During the nine months ended September 30, 2004, operating activities provided net cash of \$1,001,451. The net cash provided by operating activities was primarily attributable to the settlement with an insurance carrier totaling \$433,000, revenue growth, primarily from the Retail Web Sites, LockPoint Xtra® and Pipeline Tools product lines and payments on accounts receivable. The accounts receivable payments were 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 and an increase in prepaid expenses on various maintenance agreements on the Company's datacenters.

During the first nine months of 2003, operating activities provided net cash of \$852,779. The net cash provided by operating activities for 2003 was primarily attributable to revenue growth, primarily from our mortgage broker customers, improved bad debt experience, and a reduction in legal fees. The increase was offset by additional database support costs related to increased wholesale and correspondent loan programs, telecommunications infrastructure costs to support new services and increased volumes through the Company's consumer and business web portals, resources to support the development of broker websites and growth in the commissioned broker sales force and related customer support costs.

Investing Activities

During the nine months ended September 30, 2004, investing activities used cash of \$388,429 and primarily consisted of the capitalized portion of software development costs related to the enhancement of underlying infrastructure delivering various product lines and upgrades to computer hardware and software.

During the first nine months of 2003, we used net cash of \$306,757 for our investing activities which was primarily for the capitalized portion of software development costs related to the enhancement of core online services for brokers and the conversion of consumer traffic into higher-value lead generation and upgrades to computer hardware and software.

Financing Activities

During the nine months ended September 30, 2004, net proceeds from financing activities were \$115,745. Warrants and stock options were exercised during the period totaling approximately \$178,000. This was offset by payments totaling approximately \$63,000 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. If the Company's stock price continues

to perform at recent levels, it is possible that additional proceeds could continue to be generated during the remainder of 2004 and into 2005 through the exercise of in-the-money stock options.

During the first nine months of 2003, the net use of cash for financing activities was \$39,387. Cash used was primarily related to notes payable and capitalized lease obligations on the acquisition of application and database software, computers, servers, furniture and telecommunications systems upgrades.

Commitments and Capital Expenditures

The Company has no material commitments for capital expenditures for the remainder of 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. However, revenue remained relatively unchanged at \$3.6 million for the second and third quarters of 2004 which was a decrease from \$3.9 million for the first quarter. While we sustained a loss in 2002 totaling approximately \$109,000, we have had nine consecutive quarters of profitability beginning with the third quarter of 2002 through the third quarter of 2004. However, we did sustain a modest operating loss of approximately \$44,000 in the second quarter of 2004. Due to the acquisition of certain assets of Ignition in December 2003, the Company has incurred additional costs during the first nine months of 2004 which could extend to the end of the year while it integrates and streamlines its technology and physical infrastructure for facilities, telecommunications, and datacenters. 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 possible 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, and CFO. 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 have so far comprised 47% of our total revenues for the first nine months of 2004. While we did have two LockPoint Xtra® customers and two Pipeline Tools customers discontinue their contracts with us during the first nine months of 2004, we also had two new sales during this same period, for one LockPoint Xtra® and one Pipeline Tools. In addition, the Company has a pipeline of potential customers interested in both products that could close during the remainder of the year. 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. We have also experienced an anticipated but significant decline in loan volumes in the LPX and Pipeline Tools product lines primarily due to Freddie Mac processing their loan volumes through their own internally developed systems at the beginning of the third quarter. 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 or perhaps into 2005. 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.

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 September 30, 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 SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the quarter ended September 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
07/01/04 – 07/31/04	—	—	—	—
08/01/04 – 08/31/04	—	—	—	—
09/01/04 – 09/30/04	35,000	\$.40	—	—

(1) Represents shares of common stock tendered to us by an employee as payment for the exercise price of options issued under our 1998 Stock Option Plan.

ITEM 6. EXHIBITS

(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

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: November 15, 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: November 15, 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: November 15, 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 September 30, 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

November 15, 2004

November 15, 2004