
**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, 2005

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 May 10, 2005, approximately 37,739,662 shares of the Company's common stock were outstanding.

LION, Inc.
Form 10 – QSB
For the Quarter Ended March 31, 2005

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LION, Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,218,695	\$ 4,518,300
Accounts receivable, less allowance for doubtful accounts of \$47,000 and \$58,000 in 2005 and 2004, respectively	1,882,947	1,841,840
Deferred taxes	150,000	150,000
Prepaid expenses and other	356,470	436,888
Total current assets	6,608,112	6,947,028
PROPERTY AND EQUIPMENT – net	881,608	931,079
OTHER ASSETS		
Goodwill - net	2,590,130	2,590,130
Other assets	324,408	76,980
	<u>\$ 10,404,258</u>	<u>\$ 10,545,217</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 361,126	\$ 294,235
Accrued liabilities	1,149,037	1,334,659
Current maturities of long-term obligations	57,755	255,621
Deferred revenue	1,272,760	1,050,128
Total current liabilities	2,840,678	2,934,643
LONG-TERM OBLIGATIONS, less current maturities	985,072	995,305
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of \$.001 par value	37,667	37,431
Additional contributed capital	13,841,985	13,730,121
Accumulated deficit	(7,301,144)	(7,152,283)
	<u>6,578,508</u>	<u>6,615,269</u>
	<u>\$ 10,404,258</u>	<u>\$ 10,545,217</u>

The accompanying notes are an integral part of these statements.

LION, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2005	2004
Revenues	\$ 4,040,916	\$ 3,870,181
Expenses		
Direct costs	1,689,571	1,464,350
Selling and marketing	643,792	496,579
General and administrative	1,052,292	1,165,150
Research and development	661,846	600,250
Depreciation and amortization	130,191	134,372
	4,177,692	3,860,701
Operating (loss) income	(136,776)	9,480
Other income (expense)		
Interest expense	(23,138)	(5,523)
Interest income	14,253	2,263
	(8,885)	(3,260)
Net (loss) income before tax	(145,661)	6,220
Income tax expense	3,200	509
NET (LOSS) INCOME	\$ (148,861)	\$ 5,711
Net (loss) income per common share, basic and diluted	\$ -	\$ -

The accompanying notes are an integral part of these statements.

LION, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
	2005	2004
Cash flows from operating activities		
Net (loss) income	\$ (148,861)	\$ 5,711
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	130,191	134,372
Stock options issued to employees and contractors	65,131	121,798
Changes in assets and liabilities		
Accounts receivable	(41,107)	261,385
Other receivables	-	148,068
Prepaid expenses and other	80,418	96,636
Accounts payable	66,891	161,731
Accrued liabilities	(185,622)	(264,335)
Deferred revenue	222,632	(60,820)
Other assets	32,572	-
Net cash provided by operating activities	222,245	604,546
Cash flows from investing activities		
Capitalized software development costs	(11,746)	(86,973)
Purchase of property and equipment	(68,974)	(49,208)
Net cash used in investing activities	(80,720)	(136,181)
Cash flows from financing activities		
Restricted cash for letter of credit	(280,000)	-
Payments on notes payable and long-term obligations	(208,099)	(20,146)
Proceeds from issuance of common stock and exercise of stock options and warrants	46,969	141,096
Net cash (used in) provided by financing activities	(441,130)	120,950
Net (decrease) increase in cash and cash equivalents	(299,605)	589,315
Cash and cash equivalents at beginning of period	4,518,300	2,883,314
Cash and cash equivalents at end of period	\$ 4,218,695	\$ 3,472,629

The accompanying notes are an integral part of these statements.

LION, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A. ORGANIZATION AND DESCRIPTION OF BUSINESS

LION, Inc. (the “Company” or “LION”), a Washington corporation, is a technology and service 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 communication tools. Through its subsidiary, Tuttle Risk Management Services LLC, LION provides hands on mortgage pipeline risk management for financial institutions that originate and then sell loans into the secondary market.

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, 2004. 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, 2005. 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, 2004.

NOTE C. SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation

The consolidated financial statements include the accounts of LION, Inc. and its wholly-owned subsidiary, TRMS LLC. All significant intercompany accounts and transactions have been eliminated.

2. 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.

3. 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[®], Pipeline Tools, and Risk Management Services product lines are generated primarily from transaction fees on closed and locked loan volumes and fees for related website development and implementation.

LION, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

3. 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 software products for external licensing in accordance with Statement of Position 97-2, *Software Revenue Recognition*, and Staff Accounting Bulletin 104, *Revenue Recognition in Financial Statements*. 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 and Risk Management Services products 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.

4. 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.

5. 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. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Capitalized Software Development Costs

The Company accounts for internally developed software costs in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs are included in computer software in property and equipment and are amortized over a period of three years.

7. Goodwill

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, which became effective beginning in 2002, provides that goodwill should not be amortized, but should rather be reviewed at least annually to assess recoverability. Impairment is recognized in operating results if the fair value of goodwill is less than the carrying value of the goodwill.

8. Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

9. Income (Loss) Per Common Share

Basic income (loss) 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 options to purchase common stock. The weighted average number of common shares outstanding were 37,508,044 and 31,948,207 for the three months ended March 31, 2005 and 2004, respectively.

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, options to purchase 5,747,609 shares of common stock at March 31, 2005 were anti-dilutive, and therefore, diluted loss per share is equal to basic loss per share.

10. Advertising Costs

Advertising costs are expensed as incurred.

11. Research and Development Costs

All expenditures for research and development costs are expensed in the year incurred. These expenses consist of costs incurred for proprietary research and include related salaries and benefits, contract and other outside service fees, and facilities and overhead costs. In instances where we enter into agreements with third parties for research and development, costs are expensed upon the earlier of when non-refundable amounts are due or as services are performed. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables.

LION, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Income Taxes

The Company accounts for income taxes in accordance with SFAS 109, *Accounting for 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.

13. 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 for employees and the date services are completed for non-employees.

14. 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 following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS 123 to all employee awards.

	<u>Three months ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Net (loss) income, as reported	\$ (148,861)	\$ 5,711
Add: Stock-based employee compensation expense included in reported net income	65,131	121,798
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards*	<u>(68,142)</u>	<u>(171,465)</u>
Pro forma net (loss) income	<u>\$ (151,872)</u>	<u>\$ (43,956)</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. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C. SIGNIFICANT ACCOUNTING POLICIES - Continued

15. 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.

16. Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS No. 123R), *Share-Based Payment*. This Standard requires companies to measure share-based payments at grant-date fair value and recognize the compensation expense in their financial statements. We previously adopted the fair value based method of accounting pursuant to SFAS No. 123, *Accounting for Stock Based Compensation*, prospectively. Management is in the process of evaluating the requirements of SFAS No. 123R. The final determination of the impact of this statement has not been completed.

In March 2005, the Securities and Exchange Commission announced that the compliance date for non-accelerated filers and foreign private issuers pursuant to Section 404 of the Sarbanes-Oxley Act has been extended. Under the latest extension, a company that is not required to file its annual and quarterly reports on an accelerated basis and a foreign private issuer filing its annual report on Form 20-F or 40-F, must begin to comply with the internal control over financial reporting requirements for its first fiscal year ending on or after July 15, 2006. This is a one-year extension from the previously established July 15, 2005 compliance date. The Commission similarly has extended the compliance date for these companies relating to requirements regarding evaluation of internal control over financial reporting and management certification requirements. LION, Inc. will, therefore, be required to comply with Section 404 of the Sarbanes-Oxley Act as of December 31, 2006.

NOTE D. RESTRICTED CASH FOR LETTER OF CREDIT

At March 31, 2005, the Company has \$280,000 of restricted cash which is classified as a noncurrent asset. The restricted cash serves as collateral for an irrevocable letter of credit that provides financial assurance that the Company will fulfill its obligations with respect to the lease for its San Rafael, California office space. The cash is held in custody by the issuing bank, is restricted as to its withdrawal or use, and is currently invested in money market funds. After eighteen months, the letter of credit may be decreased to \$180,000. After thirty six months, the letter of credit may be cancelled and replaced by a security deposit equal to the then current monthly rent.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

We have initiated a business realignment of our products and services to effectively support our Leads to Loans to Capital Markets strategy. We are now more focused on executing our strategy in each of these areas, structuring products and services specifically aimed at opportunities in each market segment. This realignment represents the culmination of our efforts over the last year to integrate the Ignition and Tuttle acquisitions, allowing us to offer a comprehensive suite of bundled LION-branded products and services.

To support our realignment and to begin to heighten customer awareness, we launched a marketing campaign and corporate re-branding initiative. These are important steps in weaving together the transformation of our Leads, Loans and Capital Markets business units into a unified company capable of delivering value to our customers and shareholders that is greater than the sum its parts. Our goal is to widen our sphere of influence, articulate our competitive advantage and increase our visibility in the mortgage industry and with investors. We plan to continue our branding and product marketing efforts in the second quarter with an expectation that our efforts will drive revenue in the second half of the year and beyond.

The LION, Inc. name has long been associated with a mortgage broker centric company that delivered mortgage leads, subscription to a powerful loan program and information database, and custom websites for corporate customers. As a result of our expansion, LION is today a company that offers a comprehensive array of mortgage related solutions to a broad client base comprised of brokers, realtors, originators and lenders. While wanting to honor the legacy of our past, we wanted our name to reflect an expansion of the opportunities available to the Company through our ability to offer enterprise solutions to our large group of lender customers, as well as the advisory and professional risk management services offered through our Tuttle Risk Management Services subsidiary. While we have no plans presently to alter the name of the LION, Inc. corporate entity, we will increasingly refer to ourselves as LIONMTS or LION Mortgage Technology Solutions, a reference we believe to be more reflective of our focus on financial technology and solutions for the mortgage fulfillment space.

Revenue in first quarter 2005 was \$4.0 million, up 4.4% from first quarter of 2004 and lower by 3.1% compared to fourth quarter 2004. The first quarter typically represents our seasonal low for the year. LION's business is primarily driven by purchase money mortgages, or those mortgages originated as the result of home buying activity. Typically home buying activity is strongest from April through November. In recent years, the refinance boom masked the seasonality component of our business, but with diminished refinancing activity due to a rise in interest rates, we expect a return to seasonal patterns. While we anticipate revenue for the second quarter to be similar to the quarter just ended, we expect renewed revenue growth in the last half of 2005 due to our continued efforts to enhance the bundling of our technology and services along with the execution of our branding and marketing initiatives.

We reported a net loss of \$149,000 for the quarter compared to net income of \$6,000 for first quarter 2004 and \$113,000 for fourth quarter 2004. The net loss was primarily attributable to lower quarter over quarter revenue, higher planned expenses associated with our sales and marketing initiatives, and expected legal and accounting expenses relating to audits and regulatory compliance activities mandated by Sarbanes-Oxley. Similar to 2004, we expect the last half of the year to be much stronger than the first half due to the realignment of our business segments, momentum from our marketing initiatives, a decrease in the regulatory compliance activities related to Sarbanes-Oxley, and continued reduction in other core expenses due to further planned consolidation and integration of the Company's operations.

We concluded the quarter with \$4.5 million in cash inclusive of \$280,000 in restricted funds classified as a noncurrent asset supporting a letter of credit associated with the lease of new space consolidating our California based operations. We should be in the new space by the end of second quarter or very early in the third quarter. Cash, including the restricted cash of \$280,000, was roughly equal to the \$4.5 million reported at year end 2004. During the first quarter, the Company elected to retire the remaining \$193,000 balance of the short term notes assumed in connection with the October 2004 acquisition of Tuttle Risk Management Services. At this time, we have no intention of retiring early the 3-year notes also related to the acquisition totaling \$972,000. Our cash flow for second quarter should be similar to first quarter and is expected to increase during the last half of 2005.

BACKGROUND ON PRODUCTS AND SERVICES

As mentioned above, we have reorganized into three business units focused on Leads, Loans and Capital Markets. The Leads business unit is comprised of Mortgage 101.

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. Mortgage 101 consistently places from number 1 to number 3 in search engine placement for the keyword "mortgage." Through the Mortgage 101 brand, LION has grown its co-branded real estate sites to approximately 52,000 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 has averaged between 600,000 and 700,000 unique visitors each month during first quarter 2005 to this consumer portal. This compliments the consumer traffic received by our customers through the Mortgage 101 domain associated with the websites provided to them. Revenues are generated from mortgage brokers or originators who participate in the pay-per-lead program or advertise through the Mortgage 101 site.

The Loans business unit is comprised of LION Pro, Retail Websites, LockPoint Xtra®, and the Precision productivity marketing suite, which combines the best features of all three products plus Pipeline Tools for midsized mortgage originators.

LION Pro, used by approximately 7,600 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 for 77 regions nationwide comprised of 96 participating lenders. 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.

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 over 5,700 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 delivers 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.

Precision Marketing Productivity Suite is a complete marketing, pricing and delivery solution for retail, wholesale and correspondent mortgage origination channels. This product suite streamlines the loan fulfillment process and reduces the cost of originating a loan by creating a centralized platform to manage a company’s products and pricing. The product suite features corporate wholesale and retail websites, online advertising, lead generation, loan productivity tools, a product eligibility and pricing engine, mortgage pipeline hedging and risk management, software development and data communications tools. Lenders have the flexibility to acquire a powerful turnkey mortgage marketing and price distribution system or install each component separately to accommodate an organization’s growing needs.

The Capital Markets business unit includes our Pipeline Tools technology and TRMS’ Risk Management Services.

Pipeline Tools (“PT”) is a complete risk management and pipeline tracking system that provides financial institutions 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, pricing 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.

Risk Management Services are provided by TRMS, a registered Commodity Trading Advisor. The services are structured to provide mortgage pipeline risk management for mortgage companies and savings and loan associations that seek to originate and then sell loans into the secondary mortgage market. The solutions are tailored to firms that lack capital market expertise and offer a wide array of services under the managed account umbrella that include pricing, best execution analysis, rate sheet generation, policy and procedure formulation, trading and investor relations assistance. Clients leverage the “second set of eyes” provided by TRMS to validate their day-to-day secondary marketing decisions or to outsource significant aspects of the secondary marketing role to TRMS rather than developing the primary capability to fill these roles within their organizations.

DETAILED RESULTS OF OPERATIONS

Revenues

	For Three Months Ended					
	March 31, 2005		December 31, 2004		March 31, 2004	
<u>LEADS</u>						
Mortgage 101	\$ 455,808	11%	\$ 413,298	10%	\$ 547,766	14%
<u>LOANS</u>						
Lion Pro	751,321	19%	799,455	19%	769,179	20%
Retail web sites	657,119	16%	642,563	15%	598,744	15%
LockPoint Xtra	351,460	9%	403,148	10%	764,177	20%
	<u>1,759,900</u>	<u>44%</u>	<u>1,845,166</u>	<u>44%</u>	<u>2,132,100</u>	<u>55%</u>
<u>CAPITAL MARKETS</u>						
Pipeline Tools	273,897	7%	434,110	10%	1,190,315	31%
Risk Management Services	1,551,311	38%	1,478,701	36%	-	-
	<u>1,825,208</u>	<u>45%</u>	<u>1,912,811</u>	<u>46%</u>	<u>1,190,315</u>	<u>31%</u>
Total revenues	<u>\$ 4,040,916</u>	<u>100%</u>	<u>\$ 4,171,275</u>	<u>100%</u>	<u>\$ 3,870,181</u>	<u>100%</u>

As summarized above, we have reorganized our product groupings to more closely align our business objectives by product with the customers we serve. These business units are Leads, Loans, and Capital Markets.

Leads

Mortgage 101 revenues, which are comprised of LION's subscription and pay-per-lead based lead programs along with broker ad banner programs, increased quarter over quarter and were down compared to a year ago. This is reflective of improving mortgage origination trends compared to the fourth quarter but also of the reduction in the refinance business from a year ago. LION continues to refine its pay-per-lead model and business processes as volumes change and competition for leads increases. Our Leads business unit accounted for 11% of our quarterly revenues compared to 14% during the same quarter a year ago.

Loans

LION Pro revenues are comprised of LION Pro Corporate, LION Pro Individual, and lenders who participate in the underlying database. LION Pro revenues were slightly lower than the same quarter in the prior year due primarily to lower monthly fees for LION Pro Individual and set up fees for LION Pro Corporate. This was due to reductions and consolidation in the mortgage broker industry associated with lower refinancing business and origination volumes. There are now 101 LION Pro Corporate accounts, down from 105 accounts at the end of 2004. We anticipate growth throughout the remainder of 2005 but more so in the latter half primarily from the LION Pro Corporate product.

Retail Web Site revenues increased modestly over fourth quarter 2004 and 10% over the same quarter in the prior year. This product continues to be a strong performer for the Company. We recently announced a significant product upgrade, adding features and capabilities designed to broaden our market penetration and deliver additional product functionality.

LockPoint Xtra[®] which includes the Precision MTS bundled product decreased compared to fourth quarter 2004 and the same quarter in the prior year. Revenues are primarily transaction based and are dependent on a limited number of significant customers. The decline is mostly due to the combination of an expected loss from legacy customers and lower locked loan volumes. The technology underlying the LockPoint Xtra[®] product line is being adapted to support other LION products including the Precision MTS bundled product. We have retargeted our sales efforts to focus on Precision MTS and have added 6 new Precision MTS customers with more in the sales and contract negotiation pipeline. We anticipate the revenue from the Precision MTS bundled product to contribute to revenue modestly throughout 2005 and more so in 2006.

Together, our Loans business unit offerings accounted for 44% of our quarterly revenues compared to 55% during the same quarter a year ago.

Capital Markets

The Capital Markets business unit is comprised of Pipeline Tools and Tuttle Risk Management Services' hedged advisory services. Revenue from Pipeline Tools declined in the first quarter due primarily to a combination of an expected loss of legacy customers and lower seasonal loan volumes. Revenue from Tuttle Risk Management Services increased by 4.9% compared to fourth quarter 2004 and will continue to make advances as evidenced by the signing of six new customers in the first quarter. While we expect to increase the number of customers through the year, lower mortgage origination generally will result in some customer attrition as smaller lenders are challenged to maintain their existing origination and secondary market delivery strategies.

The decline in Pipeline Tools revenue was offset by revenue from Tuttle Risk Management Services which we did not have during the first quarter of 2004. Together, our Capital Markets unit accounted for 45% of our quarterly revenues compared to 31% during the same quarter a year ago.

Operating Expenses

	For Three Months Ended					
	March 31, 2005		December 31, 2004		March 31, 2004	
		% of Rev		% of Rev		% of Rev
Direct costs	\$ 1,689,571	42%	\$ 1,705,590	41%	\$ 1,464,350	38%
Selling and marketing	643,792	16%	501,253	12%	496,579	13%
General and administrative	1,052,292	26%	1,139,978	27%	1,165,150	30%
Research and development	661,846	16%	591,712	14%	600,250	16%
Depreciation and amortization	130,191	3%	144,038	4%	134,372	3%
Total operating expenses	<u>\$ 4,177,692</u>	<u>103%</u>	<u>\$ 4,082,571</u>	<u>98%</u>	<u>\$ 3,860,701</u>	<u>100%</u>

Quarterly operating expenses increased to \$4.2 million in first quarter 2005 from \$4.1 million in fourth quarter 2004 and \$3.9 million in first quarter 2004. Operating expenses in the second quarter are anticipated to be similar to the first quarter but decrease in the latter half of the year due to a decrease in the regulatory compliance activities related to Sarbanes-Oxley, and continued reduction in other core expenses due to further planned consolidation and integration of the Company's operations.

Direct Costs

Direct costs are comprised primarily of web site fulfillment, technology infrastructure support, product and contract support, product deployment, and TRMS trading desk and support services. Direct costs remained relatively unchanged at \$1.7 million for first quarter 2005 and fourth quarter 2004. There were additional direct costs in the first quarter due to Tuttle Risk Management Services only being a part of the consolidated operations for two and a half months in the fourth quarter, but these costs were offset by the reallocation of certain software engineering resources from a technical product support role to research and development. The increase compared to the same quarter in the prior year is due primarily to the acquisition of TRMS whose costs are primarily comprised of direct costs. The cost increase was offset by the reallocation of certain engineering software resources mentioned above at the beginning of 2005.

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 increased to \$644,000 in first quarter 2005 from \$501,000 in fourth quarter 2004. The increase is primarily due to an increase in advertising for leads for our Mortgage 101 product group and higher planned expenses associated with our sales and marketing initiatives. The increase compared to the same quarter in the prior year is due to the same reasons as compared to fourth quarter, however, there were additional selling expenses related to the Tuttle Risk Management Services operation.

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. While general and administrative expenses approximated \$1.1 million for first quarter 2005 and fourth quarter 2004, they were down slightly by approximately \$88,000 from the fourth quarter of 2004. This was due to an improvement in bad debt experience in the first quarter, incentive bonuses to various management personnel due to the successful completion of the Ignition asset purchase and integration efforts throughout 2004 expensed during the fourth quarter that did not recur in the first quarter, and a reduction in certain investor relations and legal expenses. These decreases were offset by year end audit work, Section 404 compliance efforts related to Sarbanes-Oxley, and various other expenses in the first quarter. The decrease compared to first quarter 2004 is primarily due to bonuses paid to certain upper management personnel due to the successful acquisition of the Ignition assets that did not recur in first quarter 2005.

Research and Development

Research and development expenses are comprised primarily of engineering salaries and related costs. Research and development expenses increased to \$661,000 for first quarter 2005 from \$592,000 for fourth quarter and from \$600,000 for the same quarter in the prior year. The increase was due primarily to the reallocation of certain software engineering resources from a technical product support role to that of research and development and other net increases in research and development resources. These increases are due to continuing efforts to improve the underlying technology for Retail Web Sites, Precision MTS and Pipeline Tools.

Depreciation and Amortization

The decrease in depreciation in first quarter 2005 compared to fourth quarter 2004 is due to certain internally developed software for internal use being fully depreciated by the end of 2004. Compared to the same quarter in the prior year, depreciation expense decreased slightly due to the same reason as above offset by additional depreciation related to the purchase of equipment, computers and software along with the addition of other internally developed software for internal use.

Interest Expense and Interest Income

Interest expense is comprised of interest on 10 percent promissory notes which were paid off in mid-February 2005, 8 percent promissory notes totaling \$972,000 related to the Tuttle Risk Management Services acquisition, and various debt related to capitalized leases. The promissory notes did not exist during the first quarter of 2004.

Interest income in first quarter 2005 compared to the same quarter in the prior year has increased due to additional funds that can be invested along with a rising interest rate environment. Investments have maturities of not greater than three months so as to take advantage of the rising interest rate environment.

FINANCIAL POSITION

We have financed our liquidity needs over the last several years through proceeds generated from operations. To a lesser extent, some of our cash flow has been derived from equipment lease financing, and since the beginning of 2004, the exercise of stock warrants and stock options. As of the end of 2004, no stock warrants exist, but stock options continue to be exercised.

At March 31, 2005, we had \$4,218,695 in cash and cash equivalents after reclassifying \$280,000 to noncurrent assets as restricted cash for a letter of credit on leased office space for our California operations and approximately \$3.8 million of working capital. The change in cash and cash equivalents is as follows:

	Three Months Ended March 31,	
	2005	2004
Cash Flow Summary		
Net (loss) income	\$ (148,861)	\$ 5,711
Non-cash items	195,322	256,170
Changes in working capital	175,784	342,665
Net cash provided by operating activities	222,245	604,546
Net cash used in investing activities	(80,720)	(136,181)
Net cash (used in) provided by financing activities	(441,130)	120,950
Net (decrease) increase in cash and cash equivalents	(299,605)	589,315
Cash and cash equivalents at beginning of period	4,518,300	2,883,314
Cash and cash equivalents at end of period	<u>\$ 4,218,695</u>	<u>\$ 3,472,629</u>

Non-cash Items

Non-cash items are primarily depreciation and amortization and stock option expense for both first quarter 2005 and 2004, respectively.

Working Capital and Operating Activities

During the three months ended March 31, 2005, our investment in working capital increased due to increases in deferred revenue primarily related to a large Tuttle Risk Management Services customer as part of an existing contract, a decrease in certain prepaid assets and an increase in accounts payable due to our normal business operating cycle. This increase was offset by payments of incentive bonuses accrued in the fourth quarter 2004 to various personnel due to integration efforts throughout 2004.

During the three months ended March 31, 2004, our investment in working capital increased due 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, 2005, investing activities used cash of \$80,720 which primarily consisted of the capitalized portion of software development costs related to the enhancement of underlying infrastructure delivering various product lines to customers and upgrades to computer hardware and software.

During the three months ended March 31, 2004, investing activities used cash of \$136,181 which primarily consisted of 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, 2005, financing activities included \$280,000 of cash that was restricted for a letter of credit related to an office lease for our California operations, payoff of our 10 percent promissory notes totaling approximately \$193,000 related to the Tuttle Risk Management Services acquisition, and payments on capitalized lease obligations related to the acquisition of application and database software, computers, servers, furniture and telecommunications systems upgrades over the previous two years. This was offset by the exercise of stock options during the period totaling \$46,969.

During the three months ended March 31, 2004, financing activities included the exercise of warrants and stock options 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.

Overall Liquidity and Capital Resources

It is management's assessment that current working capital and that which will be created organically through operations should be adequate for our growth plans and capital expenditure needs throughout 2005 and into 2006.

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 \$15.2 million in 2004 from \$8.1 million in 2003 and from \$6.4 million for 2002. However, during 2003 and 2004, revenues quarter to quarter have at times remained flat and decreased in the first quarter of 2005. Had it not been for the strategic acquisition of the Ignition assets in December 2003 and the acquisition of Tuttle Risk Management Services in October 2004, revenue growth targets year over year would not have been achieved in 2004 and the likelihood of achieving targets for 2005 much more difficult. We had ten consecutive quarters of profitability beginning with the third quarter of 2002 through the fourth quarter of 2004, and while we do expect a profit for 2005, we have incurred a net loss for first quarter 2005. Due to two acquisitions in the last 15 months, the Company has incurred additional costs which could extend through the first half of 2005 while we further integrate, streamline and modify our operations, technology, and infrastructure supporting our current and planned product offerings. Until these efforts are completed, profitability could be constrained during 2005.

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, and profitability. 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 expense 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 2005. Furthermore, we have not entered into employment agreements with these significant employees except for our upper management team. 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 are proposing for stockholder approval at our 2005 annual meeting a stock incentive plan which will allow a flexible stock compensation program which we believe will be important to our ability to attract and retain the best available employees.

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 and TRMS 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 2005 and 2006 and typically have renewable successive one-year terms and in a few cases successive two-year terms. Revenues from these contracts comprised approximately 54% of our total revenues for first quarter 2005. While we did have several LockPoint Xtra® and Pipeline Tools customers discontinue their contracts with us during 2004, we have also had successful new sales for our new Precision productivity marketing suite, Pipeline Tools and Risk Management Services. While we have no reason to believe other similar large contracts will not be renewed, there can be no assurance that these customers will renew their contracts, 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, Pipeline Tools, and Risk Management Services product lines. If we are unsuccessful in enrolling new customers to equalize the attrition rate, if any, of existing customers, or to offset a decline in transactional volume, 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 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.

In general, we are assessing the effectiveness of our internal controls over financial reporting on an account by account basis as a part of our on-going accounting and financial reporting review process in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which requires our management to assess the effectiveness of our existing internal controls for the fiscal year ended December 31, 2006. This effort includes documenting, evaluating the design of and testing the effectiveness of our internal controls over financial reporting. We intend to continue to refine and improve our internal controls on an ongoing basis. During this process, we may identify items for review or deficiencies in our system of internal controls over financial reporting that may require strengthening or remediation.

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Effective May 13, 2005, the employment of Mr. Timothy F. Newberry, Co-President of Operations, was terminated. Mr. Newberry's responsibilities for operations and development were assumed by Mr. Randall Miles, Chairman and CEO, and David Stedman, President. Mr. Newberry's position will not be replaced.

ITEM 6. EXHIBITS

(a) Exhibits

10.20 Office Lease Agreement (San Rafael, California Property) dated as of May 1, 2005.

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: May 16, 2005

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

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
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- | | |
|-------|--|
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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 16, 2005

/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 16, 2005

/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, 2005 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 16, 2005

May 16, 2005