

---

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10 - KSB**

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

For the fiscal year ended December 31, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-25159

**LION, Inc.**

(Name of Small Business Issuer in its charter)

**Washington**  
(State or other jurisdiction of  
incorporation or organization)

**91-2094375**  
(IRS Employer Identification No.)

**4700-42<sup>nd</sup> Ave. SW, Suite 430, Seattle, WA**  
(Address of principal executive offices)

**98116**  
(Zip code)

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

Securities registered under Section 12 (b) of the Exchange Act

None

Securities registered pursuant to Section 12 (g) of the Exchange Act

Common Stock - \$.001 par value

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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 - KSB or any amendment to this Form 10 - KSB.

State issuer's revenues for its most recent fiscal year \$8,134,088

The aggregate market value of the voting common stock held by non-affiliates of the Company as of March 12, 2004 was approximately \$11,042,475 based on the closing price for shares of the Company's common stock as reported by the OTC Bulletin Board for that date. Shares of common stock held by each officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded because these people may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

On March 12, 2004, approximately 31,860,344 shares of the Company's common stock were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE:

No documents are incorporated by reference.

Transitional Small Business Disclosure Format (check one):

Yes  No

**LION, Inc.**

**FORM 10-KSB**

**For the Fiscal Year Ended December 31, 2003**

**INDEX**

	Page
<b>PART I</b>	
ITEM 1. Description of Business	1
ITEM 2. Description of Property	8
ITEM 3. Legal Proceedings	8
ITEM 4. Submission of Matters To a Vote of Security Holders	9
<b>PART II</b>	
ITEM 5. Market for Common Equity and Related Stockholder Matters	9
ITEM 6. Management's Discussion and Analysis	10
ITEM 7. Financial Statements	23
ITEM 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	46
ITEM 8A. Controls and Procedures	46
<b>PART III</b>	
ITEM 9. Directors and Executive Officers of the Registrant	47
ITEM 10. Executive Compensation	53
ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	56
ITEM 12. Certain Relationships and Related Transactions	58
ITEM 13. Exhibits and Reports On Form 8-K	59
ITEM 14. Principal Accountant Fees and Services	61
Signatures	62

## **PART I**

### **Special Note Regarding Forward-Looking Statements**

In addition to historical information, the discussion of our business contains forward-looking statements. These forward-looking statements involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those discussed in the sections in this Annual Report on Form 10-KSB entitled “Competition,” “Proprietary Rights,” and “Management’s Discussion and Analysis.” Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date of this report. LION, Inc. undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in this document as well as other documents we file from time to time with the Securities and Exchange Commission, including the quarterly reports on Form 10-QSB to be filed during 2004.

### **ITEM 1. DESCRIPTION OF BUSINESS**

LION, Inc. (“LION” or the “Company”), a Washington corporation, has been a provider of advanced business solutions that streamline the mortgage fulfillment process for the mortgage industry since 1995. Until December 2000, we operated under the name Plenum Communications, Inc. and conducted business through our wholly-owned subsidiary, LionInc.com. Effective January 1, 2001, LionInc.com was merged into LION. Our common stock trades on the OTC Bulletin Board under the symbol “LINN.”

On December 8, 2003, we purchased certain assets of Ignition Mortgage Technology Solutions, Inc. (“Ignition”), a wholly-owned subsidiary of the Federal Home Loan Mortgage Corporation (“Freddie Mac”). Under the terms of the agreement, LION acquired product lines that included LockPoint Xtra<sup>®</sup>, an electronic rate lock system for secondary market application that provides real-time feature-adjusted loan-by-loan price quotes, and enables conduits to take direct electronic rate locks from correspondent, wholesale and retail lenders, and Pipeline Tools, which manages interest rate and loan pool fall out risk; certain customer, vendor, consulting, software and maintenance agreements related to Ignition’s business; leased operations facilities located in Gig Harbor, Washington and Sausalito, California; intellectual property held or used in connection with Ignition’s business, including copyrights, domain names, patent applications, and trademarks (but excluding Freddie Mac trademarks and other intellectual property and temporarily excluding certain Ignition trademarks); and certain tangible personal property, prepaid expenses and accounts receivable. Ignition will be LION’s mortgage technology division.

Combining the product lines of LION and Ignition, together with technology, infrastructure and personnel, will allow LION to serve broad segments of the mortgage industry. From consumer leads to loans to capital markets, LION will extend consistent, seamless mortgage business solutions to consumers, realtors, mortgage originators and lenders on a single integrated technology platform.

LION maintains executive offices at 4700-42<sup>nd</sup> Ave. SW, Suite 430, Seattle Washington 98116. Our telephone number is 206-577-1440. We maintain a website at [www.lioninc.com](http://www.lioninc.com). We make available free of charge through our website our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). These reports are also available from the SEC web site at [www.sec.gov](http://www.sec.gov). The information found on our website is not part of this or any other report we file with or furnish to the SEC.

## INDUSTRY INFORMATION

Loan origination volumes in the residential mortgage industry in the U.S. in 2003 were approximately \$3.7 trillion and are expected to fall to approximately \$1.75 to \$2 trillion in 2004. The \$3.7 trillion in 2003 represented about 24.5 million loans, 7.8 million of which were new purchase money mortgages. The \$1.75 to \$2 trillion in 2004 is expected to be generated through the origination of approximately 11.7 million loans, 7.7 million of which are expected to be new purchase money mortgages. Mortgage rates continue to stay at historically low levels, but they are expected to move up modestly before the year is out. The products and services that we deliver to our constituency are all the more valuable in an environment of greater competition.

Approximately 60 percent of consumers search for loan programs and rates online and online originations as a percent of all originations are expected to grow each year. By 2006, loan originations utilizing the Internet could approach one-third of all originations. Use of the Internet in the mortgage industry is expected to reduce both processing time and average cost per transaction.

## CUSTOMERS, PRODUCTS AND SERVICES

During 2004, LION will be assessing and integrating the product lines of LION and Ignition so that it can better serve broader segments of the mortgage industry. As various phases of the product integration are completed, we will begin talking about our products and services differently. From consumer leads to loans to capital markets, LION will extend consistent, seamless mortgage business solutions to consumers, realtors, mortgage originators and lenders on a single integrated technology platform. Currently, the stand alone products include LION Pro, Mortgage 101, Retail Web Sites, LockPoint Xtra®, and Pipeline Tools.

**LION Pro**, used by over 7,700 mortgage brokers nationwide, consists of LION Loan Search, LoanLink, News Now and Ratesheets on Demand. 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 over 126 participating lenders and nearly 122,000 regionalized loan programs in the loan search database. The LoanLink feature is a subprime loan exchange platform where originators can submit hard to place loans to participating lenders. The News Now feature allows originators to make informed decisions with high-value market data that empowers a better understanding of changes and forces in the mortgage market; featuring mortgage backed securities, near real time market information, financial market analysis, economic indicators,

business/service directories and calendars. Finally, the Ratesheets on Demand service allows members to access one of the largest aggregation of current mortgage ratesheets from one site and download or fax them anywhere, anytime. Revenues from the LION Pro product line are generated from mortgage brokers and originators subscribing to the service, origination teams private-labeling this service for their own companies, and from participating lenders.

**Mortgage 101** is an interactive service provided through LION's www.mortgage101.com consumer portal which connects potential mortgage applicants with a network of mortgage lenders who offer mortgage programs, rates, and services. Mortgage 101 also provides education to home buyers and owners through informative articles, interactive calculators and real-time rate comparison technology. This product is one of the leading sources of leads for real estate financing by mortgage originators and is a preferred platform for them to market to their customers. Through the Mortgage 101 brand, LION has grown its co-branded real estate sites to approximately 35,000 which consist of realtors, real estate offices, relocation sites, associations, and city portals. Traffic from these branded and co-branded sites along with search engine activity averages over 500,000 unique visitors each month to this consumer portal. Revenues are generated from mortgage brokers or originators who participate in the pay-per-lead program or advertise through the Mortgage 101 site.

**Retail Web Sites** are offered to mortgage companies and individual originators to help educate consumers about mortgages, market their services to borrowers, generate more business, efficiently connect with service providers, and better serve their borrowers. This product is intended to create and foster relationships between consumers and mortgage originators while enabling mortgage companies and originators to more efficiently manage their online production channel and maximize the business value received from their online operations. Both template and custom design solutions deliver a combination of standard and custom content to over 2,600 web sites and over 4,000 user accounts. LION's Retail Web Site products feature:

- ? Vast library of unbiased articles and calculators to deliver valuable information to users.
- ? Secure online 1003 application and other forms to generate leads for customers.
- ? Rate management system that feeds programs and rates from the LION Pro database of wholesale lenders to give consumers a range of quality loan programs and prices to choose from.
- ? Lead management interface to respond in a timely manner to potential borrowers and transfer data to loan processing software.
- ? Web management interface to manage the content and brand of customer's web site.

Revenues are generated from web site set up and monthly hosting fees along with 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. Key features and advantages include:

- ? Real-time lock-in, registration, confirmation, re-lock and re-price capability.

- ? Handling of individual, flow, bulk, block and/or Assignment of Trade (“AOT”) transactions.
- ? Online pipeline status and tracking information.
- ? Extensible Markup Language (“XML”) Toolkit providing integration to the Customer’s Loan Origination System (“LOS”).
- ? Call Center functionality with rate sheet selection and pricing adjustment ability.
- ? LPX Maintenance Center (“LPX MC”) tool for user and loan product set-up and administration.

Revenues are generated from initial implementation fees, recurring monthly billings based on loan amount volumes with monthly minimums which may vary from customer to customer, and custom development services.

**Pipeline Tools** (“PT”) is a complete risk management and pipeline tracking system. PT gives customers the tools necessary to manage interest rate risk as well as fallout risk. PT tracks and examines current loan inventory, which allows lenders to extrapolate and manipulate data to make more informed trading decisions. Typical users of PT include secondary marketing executives, traders, risk managers, price desks, and shipping managers. Key features and advantages include:

#### Pipeline Tracking and Reporting:

- ? Extensive mark-to-market and net position reporting.
- ? Historical analysis and peer group benchmarking.
- ? Commitment tracking and fallout analysis.
- ? FAS 133 reporting for loans in warehouse.

#### Intraday Feature List

- ? Access to real-time market movement.
- ? Current market position and P&L display reporting.
- ? Calculated aggregated risk effect of base index changes.

#### Hedging and Risk Management

- ? Hedge ratio computation.
- ? Flexible hedge strategies.
- ? Loan-level as well as trade-level mark to market pricing.
- ? Loan and trade-level risk measures and statistics calculations.

#### Trade Manager

- ? Support of whole loan, MBS, note and bond futures and option trades.
- ? Support for open buy and sell, pair off roll/swap, allocation and cross-hedge transactions.
- ? Trade log history for transaction audits.
- ? Comprehensive trade management reporting.

Revenues are generated from initial implementation fees, recurring monthly billings based on loan amount volumes with monthly minimums which may vary from customer to customer, and custom development services.

For a greater in-depth analysis of how the Company will integrate the two suites of products of LION and Ignition, see “2004 Plans” in the Financial Condition section of Management’s Discussion and Analysis.

## SALES AND MARKETING

Our principal customer base consists of mortgage brokers, lenders (wholesale, retail and correspondent), and industry affiliates. Our sales and marketing efforts are as follows:

**SALES FORCE.** We maintain a professional sales force compensated on a commission basis. The sales force makes telephone solicitations, handles inbound phone inquiries and contacts brokers who register for our service. For our larger mortgage company or lender customers, we make formal on-site presentations at the customer’s place of business along with formal presentations using multimedia technology over the Internet.

**TRADE SHOWS.** We attend tradeshows sponsored by state and national mortgage broker associations. In addition, due to the purchase of assets of Ignition Mortgage Technology Solutions, we will further participate in trade shows predominately attended by lenders, industry affiliates and technology companies. At many of these shows, we participate as speakers and exhibitors.

**PRESS RELEASES AND OTHER PRESS COVERAGE.** We issue press releases on product launches, new product releases, acquiring new customers, and achievement of certain milestones. We also have been the subject of published reviews of mortgage technology products, quoted in trade journals and been the subject of articles written about the Company.

**SPEAKING ENGAGEMENTS.** Representatives of the Company from time to time speak at other industry functions not connected to trade shows. As we have become increasingly known for our Internet expertise, the significance of these engagements has grown.

**CONSUMER INTERNET ADVERTISING.** In purchasing a home, the first Internet web site that consumers typically visit is a real estate listing or related site. In refinancing, the consumer typically finds Internet sites by searching a web portal. To attract these consumers to our network of sites, we purchase banner advertising and content placement on real estate sites and consumer portals.

**REALTOR MARKETING.** We provide a free content package for real estate and related sites. The free content delivers a Mortgage Center with Mortgage101.com technology with live rates, interactive calculators, an extensive library, and online applications with the “look and feel” of the real estate site.

**LISTING WITH SEARCH ENGINES.** We have arranged to be listed in all major “search engines.” The URLs of the network of consumer sites appear if the user enters key words such as

“mortgage” or “mortgage interest rates.” Constant analysis of server traffic shows that a significant number of consumers find these sites while “surfing the Net.”

## RESEARCH AND DEVELOPMENT

We develop our own proprietary software for providing products and services to our customers. These efforts are funded primarily through operations. Research and development expense was approximately \$384,000 and \$318,000 for 2003 and 2002, respectively.

## COMPETITION

The market for Internet-based products and services is still intensely competitive, rapidly evolving, and subject to rapid technological change. We expect competition to intensify and increase in the future. Depending on the market niche, technological barriers to entry can be relatively low, and current and new competitors can launch new sites at a relatively low cost using commercially available software. We expect to face competition from various e-commerce businesses and other companies targeting both consumers and businesses, whether or not they focus on our business model.

We believe participation from a significant majority of lenders is necessary to make a quality product. This creates a difficult barrier to entry for new competitors and requires significant ramp-up times to make a competitive product successful. Nevertheless, our competitors may include companies with longer operating histories, greater market presence and name recognition, and with larger customer bases and greater financial, technical and marketing resources than we have. These companies could be strong competitors if they decided to develop a focused business effort in our Internet space. Furthermore, to the extent that our products achieve market acceptance, competitors can be expected to offer competitive products or embark on pricing strategies, which, if successful, could have a material adverse effect on the results of our operations and financial condition.

The consumer mortgage arena is intensely competitive. Well capitalized companies spend millions of dollars marketing to the consumer to achieve brand awareness. Consumers search the Internet looking for information and will commonly shop two to three companies before making a decision. Also, consumers prefer to “shop globally and buy locally.” Our network of consumer sites delivers value to consumers on both issues. As an unbiased source of rate and fee information provided by local brokers, our network of consumer sites has become a leading mortgage portal destination when measured by reported consumer traffic.

We are also aware of competition in the broker home page development market. The market is comprised of a few strong competitors. In addition, several industry affiliates, such as the Loan Origination Software Providers, have entered the market. The market also consists of small, local web companies who provide services for a wide range of industries. These small, local web companies do not have the technology necessary to provide mortgage brokers current technology specific to the mortgage industry. We provide them the licensed technology allowing the developer to facilitate the local relationship. The industry affiliates who have entered the market view their broker home page development as an ancillary product. We currently host over 2,600 web sites. This places us as one of the top providers of Internet sites for mortgage brokers and retail originators. We have the ability to deliver competitive technology and aggressive advertising campaigns. In addition, the broker home page product benefits from the market share resulting from our product and service offerings.

With the acquisition of the assets of Ignition, the field of competitors has been expanded. The LockPoint Xtra® product is a pricing tool that competes with vendors providing sophisticated lender pricing solutions. LockPoint Xtra® provides hosted pricing capabilities coupled with loan application capture interfaces. It is differentiated from competitive products by integration of pricing interfaces with its central price engine. Pipeline Tools provides risk management and a pipeline tracking system. The technology is coupled with hosted services and does not offer a licensed software version. Several direct competitors offer hosted or licensed pipeline risk management technology. The market

for licensed technology is comprised of large vendors that have staff familiar with the complexities of setting conversion parameters and risk assessment algorithms. Several competitors have an internal unit offering trade management comparable to the arrangement we have with a reseller of the Pipeline Tools products.

There can be no assurance that we will be able to compete successfully, that competitors will not develop technologies, products or strategic alliances and affiliations that make our products less marketable or less useful or desirable. Furthermore, we may not be able to successfully enhance our products and services, develop new products or services or attain lower costs, when and as we need them. Increased competition, price or other circumstances, could result in erosion of our market share, and may require price reductions and increased spending on marketing and product development. Increasing competition for our products and services could have a material adverse effect on our business, operating results and financial condition.

## GOVERNMENT REGULATION

We are not currently subject to direct regulation by any government agency, other than regulations applicable to businesses generally, and there are currently few laws or regulations directly applicable to access to or commerce on the Internet. However, it is possible that a number of laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, pricing and characteristics and quality of products and services. There can be no assurance that the enactment of laws affecting telecommunications will not decrease the growth of the Internet, which in turn could decrease the demand for our products and services, increase the cost of doing business, or otherwise have an adverse effect on our business, operating results or financial condition. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, libel and personal privacy is developing. We cannot predict the impact, if any, that future regulation or regulatory changes might have on our business.

## PROPRIETARY RIGHTS

We rely on a combination of copyright and trademark laws, trade secrets, software security measures, license agreements and nondisclosure agreements to protect our proprietary technology and software products. We have a variety of registered Internet domain names. We currently have a pending federal trademark on Mortgage ATM and federally registered trademarks on LockPoint Xtra®, Lockpoint®, Loan Officer Plus® and Ratesheet Plus®. We are not the owner or assignee of any domestic or foreign patents but currently have two pending patents; “System and Method for Matching Consumers with Real Estate Loan Products On-Line” and “User Interface for On-line Real Estate Service.” There are no other trademark or service mark applications or patent applications pending. We cannot be certain that others will not develop substantially equivalent or superseding proprietary technology, or that equivalent products will not be marketed in competition with our products, thereby substantially reducing the value of our proprietary rights. Furthermore, there can be no assurance that any confidentiality agreements between us and our employees or any license agreements with our customers will provide meaningful protection of our proprietary information in the event of any unauthorized use or disclosure of such proprietary information.

Although we believe that our trademarks and proprietary technology do not and will not infringe patents or violate proprietary rights of others, it is possible that our trademark and proprietary rights may not be valid or that infringement of existing or future patents, trademarks or proprietary rights of others may occur. In the event our products infringe proprietary rights of others, we may be required to modify the design of our products, change the name of products or obtain a license. There can be no assurance we will be able to do so in a timely manner, upon acceptable terms and conditions, or at all. The failure to do any of the foregoing could have a material effect upon us. In addition, there can be no assurance that we will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if our products infringe patents, trademarks or proprietary rights of others, we could, under certain circumstances, become liable for damages, which could have a material adverse effect on us.

## EMPLOYEES

At December 31, 2003, we had 136 employees of which 127 were full-time. There are 19 commissioned marketing associates. Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical and management personnel, particularly highly skilled technical engineers involved in new product development. From time to time, we may employ independent consultants or contractors to support our research and development, marketing, customer service and administrative organizations. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe relations with our employees are good.

## ITEM 2. DESCRIPTION OF PROPERTY

Our executive offices are located in Seattle, Washington, where we currently lease approximately 8,274 square feet. The lease expires on July 31, 2007. We have the right to use this space for computer information services and related business uses.

For sales, marketing and website development efforts, we lease approximately 8,053 square feet in Denver, Colorado. This lease expires November 30, 2007.

Due to the acquisition of most of the assets of Ignition Mortgage Technology Solutions, LION was assigned two leases for office space. One is located in Sausalito, California totaling approximately 13,517 square feet the term of which expires October 14, 2004. The other is a lease in Gig Harbor, Washington totaling 13,376 square feet the term of which expires October 1, 2004. Both spaces are for computer information services and related business use. The Company is currently negotiating with the respective landlords for continued use of the space. Management foresees no problems in extending or modifying the leases or finding alternative space.

All leases are operating leases. We believe that our current facilities are adequate and suitable for their current use, and that additional facilities will be available, when needed, upon commercially reasonable terms. We also believe that all of the leased space and all property maintained within are adequately insured.

### **ITEM 3. LEGAL PROCEEDINGS**

See Note H ? Legal Matters of the Notes to Financial Statements (Item 7) for information regarding legal proceedings.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2003.

### **PART II**

#### **ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

##### MARKET INFORMATION

The Company's common stock trades on the OTC Bulletin Board under the symbol "LINN." The range of high and low bid prices for the Company's common stock for each quarter during the two most recent fiscal years is as follows:

Fiscal Year Ended December 31,	2003		2002	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$0.085	\$0.040	\$0.095	\$0.070
Second Quarter	0.170	0.060	0.090	0.065
Third Quarter	0.320	0.090	0.090	0.065
Fourth Quarter	0.330	0.120	0.070	0.030

This table reflects the range of high and low bid prices for our common stock during the indicated periods, as published by the OTC Bulletin Board. The quotations merely reflect the prices at which transactions were proposed, and do not necessarily represent actual transactions. Prices do not include retail markup, markdown or commissions.

There were approximately 1,329 holders of record of our common stock as of March 12, 2004.

##### DIVIDEND POLICY

We have not paid dividends on our common stock since our inception. Dividends on common stock are within the discretion of the Board of Directors and are payable from profits or capital legally available for that purpose. Our current policy is to retain any future earnings to finance the operations and growth of our business. Accordingly, we do not anticipate paying any dividends on common stock in the foreseeable future.

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW

In December 2003, we completed a strategic acquisition that has accelerated our ability to deliver advanced business solutions to an expanded universe of larger, more diverse customers, and remain consistent with our focus on enhancing the Company's ability to attain its strategic objectives. These objectives include solidifying a reputation as a preferred business partner in the mortgage industry while generating sustainable growth in revenue and profitability. LION's acquisition of substantially all of the assets of Ignition from Freddie Mac represented an opportunity to acquire compatible products that will extend our customer base, add incremental technology and intellectual property that would have required years of development and tens of millions of dollars of investment for LION to generate organically, and to assimilate a cadre of highly talented industry professionals. The results of operations of Ignition for the period from December 8, 2003 to December 31, 2003 are included in the historical results of operations of LION for the three months and the year ended December 31, 2003.

### Condensed Results

	Three months ended December 31,		For the Year Ended December 31,	
	2003	2002	2003	2002
Revenues	\$ 2,646,692	\$ 1,664,054	\$ 8,134,088	\$ 6,409,568
Operating expenses	2,220,502	1,520,607	7,294,120	6,119,823
Operating income	426,190	143,447	839,968	289,745
Other expense - net	(5,175)	(2,265)	(17,117)	(398,832)
	421,015	141,182	822,851	(109,087)
Income tax expense	29,739	-	29,739	-
	391,276	141,182	793,112	(109,087)
Extraordinary gain - net	2,027,675	-	2,027,675	-
Net income (loss)	\$ 2,418,951	\$ 141,182	\$ 2,820,787	\$ (109,087)
Net income (loss) per common share				
Basic	\$ .08	\$ -	\$ .09	\$ -
Diluted	\$ .07	\$ -	\$ .08	\$ -

The fourth quarter 2003 results were impacted positively by the acquisition of Ignition assets. Revenue was \$2.65 million, up 59% from \$1.66 million for the fourth quarter of 2002 as a result of growth in revenues from our existing core products as well as revenues contributed by the acquisition. Revenue for the full year of 2003 was \$8.13 million, up 27% from \$6.41 million for 2002.

Operating income for fourth quarter of 2003 was approximately \$426,000 compared to approximately \$143,000 for the same quarter in the prior year. For the year, operating income was

approximately \$840,000 compared to \$290,000 for 2002. As a result of the acquisition, the Company recorded an extraordinary gain net of tax totaling approximately \$2.03 million. As a result, net income for the fourth quarter increased to \$2.42 million from \$141,000 for the fourth quarter of 2002 and for the year increased to \$2.82 million from a loss of approximately \$109,000 in 2002. The loss in 2002 included settlement charges and legal fees totaling approximately \$647,000 related to litigation settled in early July 2002.

During the last half of 2003 mortgage originations in the industry declined as did consumer traffic to LION's Mortgage 101 website. Despite this downturn, LION performed well during the year and benefited from the migration from a subscription based revenue model to a transaction based model for its lead generation business. Growth in revenue and profits in 2003 were attributable to new product introductions in Mortgage 101, retail web sites and LION Pro, as well as implementation of new packaging and pricing strategies that supported the conversion to a pay-per-lead pricing model introduced in the third quarter of 2003 and the impact of the acquisition of most of the assets of Ignition Mortgage Technology Solutions in December 2003.

As a result of the acquisition of Ignition assets, we expect a majority of our future growth will shift from the sale of information and technology, to generating fees from large loan volumes served by our advanced business solutions. This restructuring of our business model should serve as an effective hedge against the prospect of declines in record levels of loan origination in 2004 compared to 2003. However, our revised model carries with it the risk that our revenues will become dependent on a limited number of significant customers, rather than a broad-based broker and customer network. See "2004 Plans" below.

Management expects that the coming year will present many challenges related to integrating the essence of two companies in multiple locations. Due to the acquisition of Ignition's assets in December 2003, we will be faced with additional costs during the first six months of 2004 and perhaps longer than that, while we integrate and streamline our facility, telecommunications, datacenter and other infrastructure. Until this integration is complete, there is the strong possibility that profits will be minimized in the first half of the year, or we could incur a loss. It is anticipated that profits should be stronger in the last half of 2004 and into 2005.

Similarly, working capital will probably decrease during the first half of 2004 due to the business integration process, but grow the last half of the year due to expected synergies with the two suites of LION and Ignition products along with completion of the organizational integration process. Despite the anticipated decrease in mortgage loan production, we expect LION will generate higher revenues in the coming year. While we are integrating our various product lines into a seamless product suite, we will continue to sell our core products and newly acquired products individually.

## DETAILED RESULTS OF OPERATIONS

### REVENUES

	2003	2002
<b>Revenues by product:</b>		
Lion Pro	\$ 3,030,559	\$ 2,948,345
Mortgage 101	2,257,280	1,675,546
Retail web sites	2,117,500	1,785,677
LockPoint Xtra	308,377	-
Pipeline Tools	420,372	-
Total revenues	<u>\$ 8,134,088</u>	<u>\$ 6,409,568</u>

The percentage of revenue pertaining to the lender space improved in 2003 due to the LockPoint Xtra® and Pipeline Tools product lines related to the Ignition asset acquisition. The revenue from Ignition assets acquired in December 2003 represented approximately 9% of our total revenues for 2003. Their anticipated impact in 2004 is expected to cause revenues from lender customers to represent approximately 55% to 60% of our overall revenues.

Revenues increased to \$8,134,088 from \$6,409,568 for the years ended December 31, 2003 and 2002, respectively. This represents an increase of \$1,724,520 or 27%. Total revenues of \$8,134,088 for 2003 were comprised of mortgage broker fees of \$6,476,370 or 80% and lender fees of \$1,657,718 or 20%. Total revenues of \$6,409,568 for 2002 were comprised of mortgage broker fees of \$5,358,994 or 84% and lender fees of \$1,050,574 or 16%.

**LION Pro** revenues increased approximately \$82,000 or 3% over the prior year. The overall increase was due to the successful launch of LION Pro Corporate which was directed at large multi-user originators looking for their own private database of loan programs and productivity tools. There are now 57 LION Pro Corporate accounts as of the end of 2003 comprising over 2,500 users. LION's alliance with ABC Virtual with its ECLP loan origination software also contributed to the overall increase in the LION Pro product line. The alliance ended at the end of January 2004, however, any loss of revenue in 2004 is anticipated to be exceeded by continued growth in the LION Pro Corporate product. The overall growth in revenue for LION Pro was offset by a reduction in lender participation related to advertising on LION's web site and custom development web site work.

**Mortgage 101** revenues, which are comprised of LION's subscription and pay-per-lead based lead programs along with broker ad banner programs, increased approximately \$582,000 or 35% over the prior year. Over 95% of the increase was related to lead generation of which approximately two-thirds was related to LION's subscription based model for the selling of leads. LION implemented its pay-per-lead pricing model during the third quarter of 2003 and anticipates that two-thirds of lead revenues will be from this model in 2004 versus the subscription or flat fee based model. The Company will be challenged to duplicate or exceed the Mortgage 101 revenues in 2004 as loan origination volumes will be significantly less compared to 2003. The switch to a predominately pay-per-lead model will assist the Company in meeting this challenge.

**Retail web site** revenues increased approximately \$332,000 or 19% over the prior year. The Company continues to successfully compete with this product line due to a suite of professional web site products designed to provide comprehensive internet based business solutions to mortgage companies of all sizes which feature both template based and customize designed solutions. These websites have easy-to-use navigation, search engine friendly design and can enable mortgage professionals to implement enterprise marketing and production solutions to promote their corporate brand to consumers and originators

**LockPoint Xtra**<sup>®</sup>, an electronic pricing and rate lock system that provides real-time feature-adjusted loan-by-loan price quotes, and enables conduits or lenders to take direct electronic rate locks from originators, and **Pipeline Tools**, which manages interest rate and fall out risk were acquired from Ignition in December 2003. Revenues are generated from initial implementation fees with new customers, recurring monthly billings based on loan amount volumes with monthly minimums which may vary from customer to customer, and custom development services. The two products contributed approximately \$729,000 to the Company's revenue and revenue growth in 2003. Due to the anticipated decline in mortgage origination volumes in 2004 compared to 2003, it is not expected that the impact to 2004 revenues for these two new products will follow as positive a trend as the fourth quarter 2003 results might indicate. However, LockPoint Xtra<sup>®</sup> and Pipeline Tools are established products in the industry and will have a positive impact on the Company's 2004 revenue and revenue growth.

## OPERATING EXPENSES

	<u>2003</u>	<u>2002</u>
Direct costs	\$ 1,735,428	\$ 1,079,660
Selling and marketing	2,240,197	1,843,857
General and administrative	2,451,645	2,413,824
Research and development	383,903	317,909
Depreciation and amortization	<u>482,947</u>	<u>464,573</u>
Total operating expenses	<u>\$ 7,294,120</u>	<u>\$ 6,119,823</u>

## DIRECT COSTS

Direct costs are comprised primarily of web site fulfillment, technology infrastructure support, product and contract support, product deployment/onboarding, quality control, and salaries related to the daily updates to rates, fees, and other loan program information. Direct costs increased to \$1,735,428 from \$1,079,660 for the year ended December 31, 2003 and 2002, respectively. This represents an increase of \$655,768 or 61%. Direct costs as a percentage of revenues increased to 21% from 17% for the year ended December 31, 2003 and 2002, respectively. The increase in expense is due to (i) database support functions as LION continues to expand its database of wholesale and correspondent loan programs, (ii) additional resources to support the development of broker websites, (iii) expanded telecommunications infrastructure to support new services and increased volumes through the

Company's consumer and business web portals, and (iv) the addition of direct costs related to the LockPoint Xtra and Pipeline Tools products as part of the acquisition of Ignition assets.

## **SELLING AND MARKETING**

Selling and marketing expenses are comprised of advertising and marketing costs, sales salaries and related support costs. Selling and marketing expenses increased to \$2,240,197 from \$1,843,857 for the years ended December 31, 2003 and 2002, respectively. This represents an increase of \$396,340 or 21%. These expenses as a percentage of revenues were 28% and 29% for the years ended December 31, 2003 and 2002, respectively. The increase is due to growth in the commissioned broker sales force, customer support costs, advertising, trade show participation, and telephone costs.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses are comprised of management and administrative salaries and related costs, legal and audit fees, outside consulting services, telecommunications expenses, occupancy costs, and other administrative related expenses. General and administrative expenses increased to \$2,451,645 from \$2,413,824 for the year ended December 31, 2003 and 2002, respectively. This represents an increase of \$37,821 or 2%. General and administrative expenses as a percentage of revenues were 30% and 38% for the years ended December 31, 2003 and 2002, respectively. The increase in costs was due primarily to additional telecommunications and rental costs in our Denver location, additional business insurance coverage, business taxes and other administrative support expenses which were offset by lower legal fees.

## **RESEARCH AND DEVELOPMENT**

Research and development expenses are comprised primarily of engineering salaries and related costs. Research and development expenses increased to \$383,903 from \$317,909 for the year ended December 31, 2003 and 2002, respectively. This represents an increase of \$65,994 or 21%. Research and development expenses as a percentage of revenues were 5% for both 2003 and 2002. The Company continues to focus on various key initiatives including but not limited to enhancing the conversion of consumer traffic into higher-value lead generation and developing new functionality to the retail web site and LION Pro suite of products. In addition, 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 anticipates a higher commitment to research and development in 2004 in order to support its product initiatives. Extensive concept, design and implementation efforts will be necessary as the product lines of LION and Ignition are integrated in order to provide a seamless mortgage business solution to consumers, realtors, mortgage originators and lenders on a single integrated technology platform.

## **DEPRECIATION AND AMORTIZATION**

Depreciation and amortization expense increased to \$482,947 from \$464,573 for the years ended December 31, 2003 and 2002, respectively. This represents an increase of \$18,374 or 4%. The increase is due to additional depreciation related to the purchase of equipment, computers and software along with the addition of internally developed software.

### **INTEREST EXPENSE**

Interest expense increased to \$20,214 from \$11,060 for the years ended December 31, 2003 and 2002, respectively. The increase in interest expense is primarily due to an increase in capitalized lease financing on computer hardware, software, and furniture.

### **OTHER EXPENSE**

Other expense of \$390,000 for the year ended December 31, 2002 is comprised of \$340,000 related to litigation that was settled in July 2002 and a \$50,000 settlement related to past software licensing infringements and penalties.

### **EXTRAORDINARY GAIN**

The purchase of certain assets of Ignition included product lines; certain customer, vendor, consulting, software and maintenance agreements related to Ignition's business; leased operations facilities; intellectual property held or used in connection with Ignition's business, including copyrights, domain names, patent applications, and trademarks (but excluding Freddie Mac trademarks and other intellectual property and temporarily excluding certain Ignition trademarks); and certain tangible personal property, prepaid expenses and accounts receivable. The fair value of the net assets acquired in the transaction exceeded the cost of the acquired assets. In accordance with the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations," the excess of the fair value of the net assets over the cost of the acquired assets was allocated as a pro rata reduction to the non-current assets acquired. Accordingly, the fair value of the property and equipment acquired in the transaction was reduced to zero, and the remaining amount was recorded as an extraordinary gain.

## FINANCIAL CONDITION

During 2003, the Company primarily funded its activities through operations and lease financing. At December 31, 2003, we had approximately \$2,883,000 in cash and cash equivalents. Cash and cash equivalents increased by \$2,479,397 for the year ending December 31, 2003. The change in cash and cash equivalents is as follows:

	2003	2002
<b>Net cash provided by (used in)</b>		
Operating activities	\$ 1,226,274	\$ 446,459
Investing activities	1,292,762	(501,745)
Financing activities	(39,639)	(21,707)
	<u>2,479,397</u>	<u>(76,993)</u>
Net increase (decrease)	<u>\$ 2,479,397</u>	<u>\$ (76,993)</u>

### *Operating Activities*

During 2003, operating activities provided net cash of \$1,226,274 compared to \$446,459 for the same period in 2002. The net cash provided by operating activities for 2003 was primarily attributable to (i) revenue growth, primarily from the successful launch of the LION Pro Corporate product, growth in subscription based lead generation revenues combined with the conversion from a subscription based to a pay-per-lead based model, and incorporation of enhanced functionality with the retail web site product and (ii) legal fees and associated settlement charges that did not recur in 2003. 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 and deployment of broker and lender websites and growth in the commissioned broker sales force and related customer support costs.

The net cash provided by operating activities for 2002 was primarily attributable to (i) revenue growth, primarily from our mortgage broker customers, (ii) improved bad debt experience, (iii) a reduction in occupancy costs and other related costs due to moving the company headquarters to a smaller, more efficient location in Seattle, Washington, and (iv) a reduction in telephone costs due to beneficial contract changes. The increase was offset by the funding of legal expenses and a judgment related to litigation that was settled in July of 2002.

### *Investing Activities*

During 2003, investing activities provided net cash of \$1,292,762 and was primarily due to favorable terms related to the acquisition of certain assets of Ignition which included net cash of approximately \$1,721,000 to cover the underlying obligations and prepaid amounts for assigned customer contracts related to the LockPoint Xtra® and Pipeline Tools products less \$539,000 for payment of acquisition costs and assumed liabilities. This was offset by (i) 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 (ii) upgrades to computer hardware and software.

During 2002, we used net cash of \$501,745 for our investing activities which was primarily for (i) the capitalized portion of software development costs related to the Company's three initiatives; enhancement of core online services for brokers, the conversion of consumer traffic into higher-value lead generation, and new online management tools for lenders and (ii) upgrades to hardware and software for the data center that delivers the Company's products and services.

### ***Financing Activities***

During 2003, the net use of cash for financing activities was \$39,639. 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. This was offset by proceeds from the exercise of stock options by employees during fourth quarter 2003.

During 2002, the net use of cash for financing activities was \$21,707. Cash used was primarily related to notes payable on the acquisition of application and database software for the Company's data center.

### **Aggregate Contractual Obligations**

	Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	4-5 Years
<b>Contractual Obligations</b>				
Long-term debt	\$ 9,562	\$ 9,562	\$ -	\$ -
Capital lease obligations	183,921	89,823	94,098	-
Operating lease obligations	1,690,428	612,696	786,434	291,298
Total contractual obligations	<u>\$ 1,883,911</u>	<u>\$ 712,081</u>	<u>\$ 880,532</u>	<u>\$ 291,298</u>

The above table represents the Company's total contractual obligations as of December 31, 2003. See "NOTE E – LONG-TERM OBLIGATIONS" and "NOTE G – COMMITMENTS AND CONTINGENCIES" in the Company's "NOTES TO FINANCIAL STATEMENTS" below for additional information.

### **2004 plans**

LION provides mortgage professionals with new customers and advanced business solutions that streamline the mortgage fulfillment process. As a result of the acquisition of the assets of Ignition LION has improved its ability to achieve heightened performance in existing product lines and create incremental revenue from new sources.

A majority of the Company's future growth will shift from the sale of information and technology, to generating fees from large loan volumes served by LION's advanced business solutions.

A restructuring of the Company’s business model should serve as an effective hedge against the prospect of declines in record levels of loan origination in 2004 compared to 2003.

Integration of newly acquired products will enhance LION’s existing product offerings and will facilitate repackaging of the Company’s combined products into various business units that could include Mortgage 101/Retail Websites, LION Pro/Lender Websites/LPX and Pipeline Tools. Planned product realignment and how those changes will affect LION customers are summarized below:

	<b>Mortgage 101 Portal</b>	<b>Mortgage 101 Retail Websites</b>	<b>LION Pro Portal</b>	<b>LION Lender Websites</b>
<b>LION</b>	Consumer content / affiliate network	Design, marketing leads, management	Program/pricing, search engine	Custom sites, loan status, rate mgmt
<b>Ignition</b>	LoanFinder	Lockpoint Xtra® LoanFinder	Lockpoint Xtra®	Lockpoint Xtra® Pipeline Tools

**Mortgage 101 - LION’s consumer portal:** Mortgage 101 is a leading portal providing mortgage information to consumers seeking loans through a network of over 35,000 Realtor? web sites nationwide. Through Mortgage 101’s network of affiliate sites and other established internet traffic sources, as many as 1 million consumers have visited our website monthly to gather information, check interest rates, and connect to our network of mortgage originators for real estate financing. This is one of the leading sources of leads for mortgage originators and has become a preferred platform for marketing to their customers. Adding **LoanFinder** technology extends an advanced loan search product directly to consumers and provides an intuitive, easy to use loan application that can be sent directly to loan originators.

**Mortgage 101 Retail Websites - targeted to companies that originate consumer 1003 applications:** LION offers a suite of professional website products designed to provide comprehensive internet based business solutions to mortgage companies of all sizes. Featuring both template based and customize designed solutions, these websites have easy-to-use navigation, search engine friendly design and can enable mortgage professionals to implement enterprise marketing and production solutions to promote their corporate brand to consumers and originators. **LockPoint Xtra®** is an electronic pricing and rate lock system that provides real-time feature-adjusted loan-by-loan price quotes, and enables conduits or lenders to take direct electronic rate locks from originators, Adding this technology to originator websites provides more accurate loan program eligibility and rate distribution at the point of sale. Additionally, the technology can facilitate loan statusing and transfer of a completed 1003 application to lenders.

**LION Pro - LION’s originator portal:** LION Pro features one of the leading loan discovery databases available. This robust database features over 126 lenders and 54,000 loan programs and allows mortgage professionals to secure the most advantageous loan product and rates for their customer. The site also features Rate Sheets on demand, a subprime exchange platform, and *NewsNow*, a daily editorial page that features market commentary, highlights and current market snapshots throughout the day. Adding **Lockpoint Xtra®** will improve the search capacity, depth and accuracy of the current LION loan search engine by adding real-time feature-adjusted loan-by-loan

price quotes and an electronic rate locking system that will facilitate movement of loan files directly to lenders.

**LION Lender Websites - targeted to correspondent (net branch), wholesale and retail mortgage lenders** : LION offers wholesale lenders a comprehensive suite of professional website products developed specifically to service the needs of lenders and their customers. These custom websites feature easy-to-use navigation, search engine friendly design and provide enterprise marketing and production solutions to promote their corporate brand, generate leads for their loan officers and deliver best execution to their customers. Management tools enable loan officers to create and maintain their own site within the corporate website, inform customers and generate and manage leads. **Lockpoint Xtra®** and **Pipeline Tools** will add a number of advanced features to this product and provide the necessary last link in the chain for moving applications from consumers and originators to the capital markets.

## **2004 Goals and Objectives**

The coming year presents many challenges, and LION has developed strategies to address them. First, integrating the essence of two companies in multiple locations presents its own special set of challenges. By the time the Ignition transaction was closed, the Company was ready to execute initiatives to realize operating efficiencies, combine best of breed technology and product feature sets, and implement an organizational structure that while flexible enough to meet long term objectives was positioned to facilitate integration with as little disruption as possible.

Expectation that mortgage origination will fall dramatically from the historic highs of the last two years demands that the Company hone its operational efficiency to preserve margins. The integration of the Ignition assets will create opportunities to extract operating efficiencies. Additionally, the combined platform will generate many opportunities to sell the Company's products and services to a broader audience. We expect that notwithstanding decreasing mortgage loan production, LION will generate higher revenues in the coming year. In addition, profit may be lower during the first six months of 2004 due to the cost and resources required to integrate further the product lines, operating facilities, cost centers, and computer systems but should increase in the latter half of the year. While integrating the Company's product lines into a seamless product suite, the Company will continue to sell its core products and newly acquired products individually.

Although our products will reach a greater customer base, our expanded product line carries with it the risk that our revenues will be dependent on a limited number of significant customers, rather than a broad-based broker and customer network. As part of the acquisition of Ignition assets, LION became the assignee of certain customer contracts, most of which have initial contract periods or renewals expiring throughout 2004 and 2005 and typically have renewable successive one-year terms and in a few cases successive two-year terms. Revenues from these contracts are expected to comprise over 40% of the Company's anticipated revenues in 2004. While we have no reason to believe these contracts with LION 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.

It is management's assessment that working capital obtained through the acquisition of the Ignition assets and that which is created organically through operations should be adequate for its growth plans throughout 2004 and into 2005.

## **Management Realignment**

Concurrent with closing the Ignition asset purchase, the Company announced management realignment designed to address the immediate needs related to product and technology integration, and the longer term considerations associated with strategic direction, branding and market strategy in both product terms and capital markets.

Integration of important assets, high caliber personnel at LION and Ignition, technology and intellectual property provide LION with an opportunity to leverage the strength of the combined platform to distinguish itself from its competitors. By driving higher revenues and profitability, the Company can achieve broader recognition in the mortgage marketplace and in the investment community.

LION has expanded its management team to combine the strengths and experience of its members to meet the needs of the organization today and into the future. More information relating to the Company's senior managers identified below can be found in Item 9 of this report:

Randall Miles – Chairman & CEO  
Dave Stedman – Co-President: sales, marketing, investor relations, branding  
Tim Newberry – Co-President: operations, product development and technology  
Steve Thomson – Chief Financial Officer  
John Crowley – Senior Vice President, Sales and Marketing  
Shawn Tovey – Senior Vice President, Product Development

## **Critical Accounting Policies**

As disclosed in the Notes to the Financial Statements (See Note A), we have identified various accounting policies as critical to our business operations and to the understanding of our results of operations. Critical accounting policies for LION include revenue recognition, accounting for internally-developed software, accounting for research and development costs, accounting for legal contingencies, and accounting for income taxes.

## **FACTORS THAT MAY AFFECT FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-KSB 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 section entitled "Management's Discussion and Analysis." 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. The Company anticipates strong growth in revenue in 2004 compared to 2003. While we sustained a loss in 2002 totaling \$109,000, we have had six consecutive quarters of profitability beginning the third quarter of 2002 through the fourth quarter of 2003. Due to the acquisition of most of the assets of Ignition Mortgage Technology Solutions in December 2003, the Company will be faced with additional costs during the first six months of 2004 and perhaps longer while it integrates and streamlines its facility, telecommunications, datacenter and other infrastructure. Until this integration is complete, there is the strong possibility that profits will be minimized the first half of the year, or we could even incur a loss.

Although we currently anticipate that 2004 will be a profitable year, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets, including uncertainty of revenues, markets, profitability and the need to raise capital to fund our ongoing operations. We cannot assure you that we will be successful in addressing these risks or that we can be operated profitably, which depends on many factors, including the success of our marketing program, the 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 and its mortgage technology division, Ignition. 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 another year. Furthermore, we have not entered into employment agreements with these significant employees except for our CEO, Co-President of sales and marketing, Co-President of Operations, CFO and the product manager for our Mortgage 101 product group. If any of these individuals were to leave LION unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. We provide stock options, which currently serve to retain and motivate key employees as they become vested in their initial stock option grants. While management personnel are typically granted additional stock options, which will usually vest over a period of four years subsequent to their hire date to provide additional incentive to remain at LION. The initial option grant is typically the largest and an employee may be more likely to leave our employ upon completion of the vesting period for the initial option grant. We expect that we will need to attract, train, retain and motivate additional technical, managerial, marketing and customer support personnel. Competition for these personnel may be intense, particularly for individuals with suitable experience. We face the risk that if we are unable to attract and integrate new personnel, or retain and motivate existing personnel, our business will be adversely affected.

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

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

***Our operations may be vulnerable to disruption problems.***

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

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

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

As of December 31, 2003, virtually all of the 31,819,094 outstanding shares of common stock held by existing shareholders were currently eligible for resale in the open market, subject in certain cases to the volume and other conditions of Rule 144. There are no contractual restrictions on the resale of the outstanding common stock. The sale in the public market of these shares of common stock, or the perception that these sales may occur, may depress prevailing market prices of the common stock or hinder potential future financing efforts.

## **ITEM 7. FINANCIAL STATEMENTS**

The following financial statements of LION, Inc. are included in Item 7:

- Report of Independent Certified Public Accountants
- Balance Sheets
- Statements of Operations
- Statement of Stockholders' Equity
- Statements of Cash Flows
- Notes to Financial Statements

## Report of Independent Certified Public Accountants

Board of Directors and Stockholders  
LION, Inc.

We have audited the accompanying balance sheets of LION, Inc. as of December 31, 2003 and 2002, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LION, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP  
Portland, Oregon  
February 13, 2004

LION, Inc.  
BALANCE SHEETS  
December 31,

ASSETS

	2003	2002
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,883,314	\$ 403,917
Accounts receivable, less allowance for doubtful accounts of \$132,000 and \$62,400 in 2003 and 2002, respectively	2,141,264	347,661
Other receivables	620,708	-
Prepaid expenses and other	361,975	71,388
Total current assets	6,007,261	822,966
<b>PROPERTY AND EQUIPMENT, net</b>	1,025,153	940,372
<b>OTHER ASSETS</b>		
Goodwill – net	273,955	273,955
Other assets	82,908	37,908
	<b>\$ 7,389,277</b>	<b>\$ 2,075,201</b>

LIABILITIES AND STOCKHOLDERS' EQUITY

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 189,727	\$ 111,340
Accrued liabilities	1,647,931	329,671
Current maturities of long-term obligations	82,452	35,330
Deferred revenue	1,240,166	295,497
Total current liabilities	3,160,276	771,838
<b>LONG – TERM OBLIGATIONS, less current maturities</b>	85,822	52,495
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.001 per share; authorized 5,000,000 shares; liquidation value \$900,000	1,500	1,500
Common stock - authorized, 50,000,000 shares of \$.001 par value	31,819	31,442
Additional contributed capital	11,812,248	11,741,101
Accumulated deficit	(7,702,388)	(10,523,175)
	<b>\$ 7,389,277</b>	<b>\$ 2,075,201</b>

The accompanying notes are an integral part of these statements.

LION, Inc.  
STATEMENTS OF OPERATIONS  
Year ended December 31,

	2003	2002
Revenues	\$ 8,134,088	\$ 6,409,568
Expenses		
Direct costs	1,735,428	1,079,660
Selling and marketing	2,240,197	1,843,857
General and administrative	2,451,645	2,413,824
Research and development	383,903	317,909
Depreciation and amortization	482,947	464,573
	7,294,120	6,119,823
Operating income	839,968	289,745
Other income (expense)		
Interest expense	(20,214)	(11,060)
Interest income	3,097	1,988
Other income	-	240
Other expense (Note H)	-	(390,000)
	822,851	(109,087)
Net income (loss) before tax and extraordinary gain		
Income tax expense	29,739	-
	793,112	(109,087)
Net income (loss) before extraordinary gain		
Extraordinary gain – net of income tax expense of \$76,271	2,027,675	-
	\$ 2,820,787	\$ (109,087)
NET INCOME (LOSS)		
Per common share basic		
Income (loss) before extraordinary gain	\$ .03	\$ -
Income (loss) from extraordinary gain	.06	-
	\$ .09	\$ -
Net income		
Per common share diluted		
Income (loss) before extraordinary gain	\$ .02	\$ -
Income (loss) from extraordinary gain	.06	-
	.08	-
Net income		

Net income

\$	\$
.08	-
<u>          </u>	<u>          </u>

The accompanying notes are an integral part of these statements.

LION, Inc.

STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 2003 and 2002

	Preferred stock		Common stock		Additional contributed capital	Notes receivable from stockholders	Accumulated deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2001	1,500,000	\$ 1,500	31,026,978	\$31,027	\$11,716,622	\$ (21,250)	\$ (10,414,088)	\$1,313,811
Issuance of common stock in conjunction with exercise of stock options	-	-	15,000	15	885	-	-	900
Common stock issued in lieu of compensation	-	-	525,000	525	37,921	-	-	38,446
Issuance of stock options for consulting services received	-	-	-	-	6,798	-	-	6,798
Common stock returned for cancellation of notes receivable	-	-	(125,000)	(125)	(21,125)	21,250	-	-
Net loss for the year	-	-	-	-	-	-	(109,087)	(109,087)
Balance at December 31, 2002	1,500,000	1,500	31,441,978	31,442	11,741,101	-	(10,523,175)	1,250,868
Issuance of common stock in conjunction with exercise of stock options	-	-	101,116	101	19,066	-	-	19,167
Common stock issued in lieu of compensation	-	-	276,000	276	19,360	-	-	19,636
Employee compensation from stock options	-	-	-	-	31,699	-	-	31,699
Issuance of stock options for consulting services received	-	-	-	-	1,022	-	-	1,022
Net income for the year	-	-	-	-	-	-	2,820,787	2,820,787
Balance at December 31, 2003	1,500,000	\$ 1,500	31,819,094	\$31,819	\$11,812,248	\$ -	\$(7,702,388)	\$4,143,179

The accompanying notes are an integral part of these statements.

LION, Inc.  
STATEMENTS OF CASH FLOWS  
Year ended December 31,

	2003	2002
Cash flows from operating activities		
Net income (loss) before extraordinary gain	\$ 793,112	\$ (109,087)
Adjustments to reconcile net income (loss) before extraordinary gain to net cash provided by operating activities		
Depreciation and amortization	482,947	464,573
Write off of capitalized software development costs	-	10,436
Stock options issued to employees and contractors	32,721	6,798
Common stock issued in lieu of cash compensation	19,636	38,446
Tax on extraordinary gain	(76,271)	-
Changes in assets and liabilities		
Accounts receivable	(101,824)	15,507
Prepaid expenses and other	(11,510)	1,191
Accrued liabilities	473,980	23,333
Accounts payable	(410,532)	(17,900)
Deferred revenue	24,015	18,048
Other assets	-	(4,886)
	1,226,274	446,459
Net cash provided by operating activities		
Cash flows from investing activities		
Capitalized software development costs	(309,998)	(355,285)
Net cash received in connection with purchase of assets	1,721,235	-
Purchases of property and equipment	(118,475)	(146,460)
	1,292,762	(501,745)
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Payments on long-term obligations	(58,806)	(22,607)
Proceeds from issuance of common stock and exercise of stock options	19,167	900
	(39,639)	(21,707)
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	2,479,397	(76,993)
Cash and cash equivalents at beginning of period	403,917	480,910
Cash and cash equivalents at end of period	\$ 2,883,314	\$ 403,917

Supplemental cash flow information and non-cash investing and financing activities  
See Note K

The accompanying notes are an integral part of these statements.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE A - SUMMARY OF ACCOUNTING POLICIES

LION, Inc., dba LionInc.com, ( 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 along with Ignition Mortgage Technology Solutions, provide an integrated technology platform offering online loan productivity, mortgage pipeline hedging and risk management, software development and data communications tools through its LockPoint Xtra<sup>®</sup> and Pipeline Tools product lines.

A summary of significant accounting polices applied in the preparation of the accompanying financial statements follows.

1. Cash and Cash Equivalents

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

2. Revenue Recognition

LION generates revenue throughout the mortgage loan pipeline. Subscription revenues are generated from mortgage brokers and agents who are provided electronic access to a database of mortgage offerings by a multitude of lenders throughout the United States. LION also generates revenue from advertisers who pay marketing fees for ad banners, web site promotion, and lead generation. Additionally, fees are earned related to mortgage originator and lender web site development and hosting. Revenues from the LockPoint Xtra<sup>®</sup> 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 Recognition in Financial Statements*. Revenue from licensing fees relating to the use of the LockPoint Xtra<sup>®</sup> product is recognized when all elements of the contract have been delivered to the customer. Revenue from monthly recurring charges from use of the Pipeline Tools product is recognized in the period in which the service is provided.

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

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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 or 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 capitalized software development costs, intended for internal use, totaling \$309,998 and \$355,285 for the years ended December 31, 2003 and 2002, respectively. These costs are included in computer software in property and equipment and are amortized over a period of three years.

6. 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.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Use of Estimates

In preparing the Company's financial statements, 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.

8. 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 (loss) per share. Common stock equivalents include preferred shares and options to purchase common stock.

9. Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was approximately \$304,000 and \$230,000 for the years ended December 31, 2003 and 2002, respectively.

10. Research and Development Costs

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

11. 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.

12. 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.

13. 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."

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

13. Stock Options - Continued

During the year ended December 31, 2003, the Company issued options to purchase 3,635,000 shares under the 1998 Stock Option Plan (the "Plan"). Compensation expense will be based on the fair value of the options at the respective grant dates utilizing the Black-Scholes model for estimating fair value. The Company will recognize compensation expense of \$765,580 over the vesting period for these options granted. Under the intrinsic value method reported previously, no compensation expense had been recognized on options granted through December 31, 2002, as the exercise price of the options granted equaled the market price on the date of grant for all prior grants. The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value recognition provisions of SFAS 123 to all employee awards granted on or before January 1, 2003.

	2003	2002
Net income (loss), as reported	\$ 2,820,787	\$ (109,087)
Add: Stock-based employee compensation expense included in reported net income	31,699	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(334,487)	(450,303)
Pro forma net income (loss)	\$ 2,517,999	\$ (559,390)
Income (loss) per share:		
Basic – as reported	\$ .09	\$ -
Diluted – as reported	\$ .08	\$ -
Basic – pro forma	\$ .08	\$ (.02)
Diluted – pro forma	\$ .08	\$ (.02)

14. 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.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

15. Recently Issued Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board issued Statement 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of these instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003; otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of this statement effective June 15, 2003, which did not have a significant impact on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" ("FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity under certain conditions. The Company does not have any involvement in variable interest entities. The adoption of FIN 46 did not have a significant impact on the Company's results of operations, financial position or cash flows.

NOTE B – BUSINESS COMBINATIONS

On December 8, 2003, the Company purchased certain assets of Ignition Mortgage Technology Solutions, Inc. ("Ignition"), a wholly-owned subsidiary of the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Under the terms of the agreement, LION acquired LockPoint Xtra,<sup>®</sup> an electronic rate lock system for secondary market application that provides real-time feature-adjusted loan-by-loan price quotes, and enables conduits to take direct electronic rate locks from correspondent lenders; Pipeline Tools, used to manage interest rate and loan pool fall-out risk; Loan Officer Plus,<sup>®</sup> a point-of-sale product for originating mortgage loans; the multi-lender, automated application capture and price locking mortgage product referred to as Loan Finder/Loan WorkBench/Optimum Controller; certain customer, vendor, consulting, software and maintenance agreements related to Ignition's business; leased operations facilities located in Gig Harbor, Washington and Sausalito, California; intellectual property held or used in connection with Ignition's business, including copyrights, domain names, patent applications, and trademarks (but excluding Freddie Mac trademarks and other intellectual property and temporarily excluding certain Ignition trademarks); and certain tangible personal property, prepaid expenses and accounts receivable as of November 30, 2003. In addition, the Company received \$1.0 million in consideration for satisfying obligations under the assigned customer agreements and \$776,950 related to amounts prepaid by a customer under an assigned customer agreement.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE B – BUSINESS COMBINATIONS - Continued

The transaction was accounted for in accordance with SFAS 141, “Business Combinations.” LION paid \$1,000 and assumed liabilities of \$141,072 for substantially all of Ignition’s assets. Under the terms of the transaction, LION assumed a deferred payroll obligation of \$620,708 for severance to be paid on or about June 30, 2004 to certain employees that transferred to LION from Ignition. Freddie Mac will provide LION with the funds within ten business days of Freddie Mac’s receipt from LION that the funds are due. This deferred payroll obligation is included in accrued liabilities and other receivables on the balance sheet.

The fair value of the net assets acquired in the transaction exceeded the cost of the acquired assets. The excess of the fair value of the net assets over the cost of the acquired assets was allocated as a pro rata reduction to the non-current assets acquired. Accordingly, the fair value of the property and equipment acquired in the transaction has been reduced to zero, and there will be no associated depreciation and amortization expense going forward.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

At December 8, 2003	
<u>Assets</u>	
Cash received – net of acquisition costs of \$55,715	\$ 1,721,235
Accounts receivable – net	1,691,779
Prepaid expense	279,077
Other receivables	620,708
Rent deposit	45,000
Total assets	4,357,799
<u>Liabilities</u>	
Accrued liabilities	141,072
Deferred revenue	920,654
Deferred payroll obligation	620,708
Accrued acquisition costs	571,419
Total liabilities	2,253,853
Extraordinary gain on acquisition	\$ 2,103,946

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE B – BUSINESS COMBINATIONS - Continued

The following table represents combined proforma results of operations for LION and Ignition. LION's results of operation for the year ended December 31, 2003 was combined with the ten month period ended October 31, 2003 for Ignition. The operations for the ten month period ended October 31, 2003 for Ignition was extracted from the audited financial statements included in Form 8-K/A filed with the SEC on February 23, 2004 and was used in lieu of financial statements for the period ended December 8, 2003, the acquisition date, as obtaining financial information for this period was impracticable. The results of operations of Ignition for the period from December 8, 2003 to December 31, 2003 are included in the historical results of operations of LION for the year ended December 31, 2003. The results of operations for the year ended December 31, 2002 for LION and Ignition were combined. The pro forma results of operations for LION and Ignition do not purport to indicate the actual results of operations which would have been achieved had the acquisition been consummated at the beginning of the period.

	<u>2003</u>	<u>2002</u>
Revenue	\$ 18,171,313	\$ 14,869,667
Net loss before extraordinary gain	\$ (2,161,891)	\$ (22,899,832)
Net loss	\$ (134,216)	\$ (22,899,832)
Loss per share, basic and diluted	\$ -	\$ (.73)

Warrants and options to purchase common stock during 2003 and 2002 were excluded in the computation of diluted earnings per share because their effect would be anti-dilutive.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2003</u>	<u>2002</u>
Computer equipment	\$ 694,734	\$ 576,285
Computer software	1,682,114	1,442,765
Equipment	317,515	276,017
Leasehold improvements	10,919	4,990
	<u>2,705,282</u>	<u>2,300,057</u>
Less accumulated depreciation and amortization	<u>1,680,129</u>	<u>1,359,685</u>
	<u>\$ 1,025,153</u>	<u>\$ 940,372</u>

The Company had \$227,198 and \$87,944 in fixed assets which were acquired under capital leases at December 31, 2003 and 2002, respectively. Accumulated amortization on equipment under capital leases totaled \$64,098 and \$17,705 at December 31, 2003 and 2002, respectively.



LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE D - ACCRUED LIABILITIES

Accrued liabilities consist of the following as of December 31:

	<u>2003</u>	<u>2002</u>
Salaries	\$ 271,655	\$ 126,404
Payroll taxes	116,918	46,569
Vacation	152,066	99,211
Severance	620,708	-
Federal, state, and local taxes	241,670	-
Acquisition costs	82,500	-
Other	162,414	57,487
	<u>\$ 1,647,931</u>	<u>\$ 329,671</u>

NOTE E - LONG-TERM OBLIGATIONS

	<u>2003</u>	<u>2002</u>
Software note payable in monthly installments of \$873 at a fixed rate of 17.3%; final payment due December 2004; collateralized by software	\$ 9,562	\$ 17,617
Capital lease obligations payable in monthly installments of \$242 at a fixed rate of 14.3%; final payment due December 2004	2,690	5,024
Capital lease obligations payable in monthly installments of \$1,519 at a fixed rate of 17.3%; final payments due at various dates through November 2004	14,302	28,684
Capital lease obligations payable in monthly installments of \$1,328 at a fixed rate of 16.9%; final payments due November 2005	25,941	36,500
Capital lease obligations payable in monthly installments of \$1,301 at a fixed rate of 15.9%; final payments due at various dates through January 2006	27,275	-
Capital lease obligations payable in monthly installments of \$115 at a fixed rate of 1%; final payment due May 2006	3,387	-
Capital lease obligations payable in monthly installments of \$3,209 at a fixed rate of 12%; final payment due July 2006	85,117	-
	<u>168,274</u>	<u>87,825</u>
Less current maturities	(82,452)	(35,330)
	<u>\$ 85,822</u>	<u>\$ 52,495</u>

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE E - LONG-TERM OBLIGATIONS - Continued

The following is a schedule by year of minimum payments under such obligations:

Year ending December 31,	Capital Leases	Note Payable	Total
2004	\$ 89,823	\$ 9,562	\$ 99,385
2005	70,112	-	70,112
2006	23,986	-	23,986
Total minimum payments	183,921	9,562	193,483
Less amount representing interest	(25,209)	-	(25,209)
Net principal payments	<u>\$ 158,712</u>	<u>\$ 9,562</u>	<u>\$ 168,274</u>

NOTE F - INCOME TAXES

The income tax provision is comprised of the following for the years ended December 31:

	2003	2002
Current:		
Federal	\$ 56,826	\$ -
State	49,184	-
Total	<u>\$ 106,010</u>	<u>\$ -</u>

The income tax provision reconciled to the tax computed at the statutory federal rate was as follows for the years ended December 31:

	2003	2002
Tax provision (benefit) at statutory rate	\$ 999,177	\$ (37,090)
State income taxes	49,184	-
Non-deductible expenses	6,425	5,317
Other	(19,488)	(45,204)
(Decrease) increase in valuation allowance	(929,288)	76,977
Total	<u>\$ 106,010</u>	<u>\$ -</u>

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE F - INCOME TAXES - Continued

The components of deferred taxes are as follows at December 31:

	2003	2002
Deferred tax assets:		
Intangible assets	\$ 23,851	\$ 26,350
Liabilities not timely paid	50,375	32,882
Allowance for doubtful accounts	46,643	21,216
Stock options and warrants issued to consultants for services	41,703	39,779
Stock options issued to employees	11,195	-
Deferred revenue	309,282	-
Federal tax credits	56,826	-
Net operating loss carryforward	1,340,362	2,314,808
	1,880,237	2,435,035
Deferred tax liabilities:		
Depreciation	97,856	67,212
Extraordinary gain deferred	343,846	-
	441,702	67,212
Valuation allowance	(1,438,535)	(2,367,823)
	\$ -	\$ -

The Company has established a valuation allowance of \$1,438,535 and \$2,367,823 as of December 31, 2003 and 2002, respectively, due to the uncertainty of future realization of the net deferred tax assets. The valuation allowance was (decreased) increased by \$(929,288) and \$76,977 during the years ended December 31, 2003 and 2002, respectively, based upon management's estimate of the realizability of the net deferred tax assets. At December 31, 2003, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$3,942,000 available to offset future income which expire in 2018 through 2022. Utilization of these carryforwards is dependent on future taxable income and could further be limited due to a change of control in the Company's ownership as defined by the Internal Revenue Code Section 382.

NOTE G - COMMITMENTS AND CONTINGENCIES

The Company conducts a portion of its operations in leased facilities under operating lease agreements. The following is a schedule by years of approximate minimum rental payments under such operating leases, which expire at various dates through November 2007.

Year ending December 31,	
2004	\$ 612,700
2005	388,100
2006	398,400
2007	291,300

Year ending December 31,  
Total minimum payments required

\$ 1,690,500

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE G - COMMITMENTS AND CONTINGENCIES - Continued

Various leases provide for payment of taxes and other expenses by the Company. Rent expense for leased facilities totaled approximately \$435,000 and \$358,000 for the years ended December 31, 2003 and 2002, respectively.

The Company from time to time is involved in certain legal matters arising during the normal course of business. In the opinion of management, the outcome of these matters will not have a material effect on the Company's financial position or results of operations.

In December 2003, the Company entered into three year employment agreements with Randall D. Miles, its CEO, and Timothy F. Newberry, its Co-President of Operations. Each of the employment agreements provide for an initial annual salary of \$200,000 and may include a bonus. In the event employment is terminated by the Company without cause, Mr. Miles and Mr. Newberry will be entitled to a severance payment of 50% of his annual compensation. They are also entitled to receive, at the Company's expense, continuation of medical, dental and disability benefits for 6 months following termination without cause.

In October 2001, the Company entered into employment agreements with Dave Stedman, its President, and Steve Thomson, its CFO. The employment agreements for Mr. Stedman and Mr. Thomson provided for initial annual salaries of \$125,000 and \$110,000, respectively. Each agreement has a term of three years and provides that the compensation will include a base and may include a bonus. In the event that employment is terminated by the Company without cause, they will be entitled to a severance payment of 50% of their annual compensation. They are also entitled to receive, at the Company's expense, continuation of medical, dental and disability benefits for 6 months following termination without cause. Each agreement provides that they may elect to receive up to 20% of their salary in the form of restricted stock grants, valued using the 20 day trailing average closing price on the date of grant.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE H - SETTLEMENT OF LEGAL MATTERS

A jury trial was completed on May 31, 2002, in a matter initiated by Billy Anders, a former director of LION (*Billy R. Anders v. Plenum Communications, Inc, a Minnesota corporation, Allen Ringer, and the marital community of Allen Ringer and Jane Doe Ringer* filed in the Spokane County Superior Court, Case No. 00-207342-3). Prior to the conclusion of the trial, Mr. Anders' claims of negligent misrepresentation and racial discrimination on the basis of disparate treatment and retaliation were dismissed. In addition, the Company's counterclaims against Mr. Anders were also dismissed. The jury found there was a breach of an oral contract and an intentional misrepresentation made to Mr. Anders by Allen Ringer, the former President, acting on behalf of the Company, and awarded plaintiff \$357,000 in damages. The judgment, which was recorded in Other Expense in the second quarter of 2002, was settled in lieu of an appeal for a payment totaling \$340,000 in early July 2002.

The Company has initiated a lawsuit against its insurance carrier, Great American Insurance Company, seeking reimbursement of defense costs and payments made by way of settlement related to the action initiated against the Company as noted above. The lawsuit has been filed in Superior Court of Washington For King County, Case No. 02-2-34891-2SEA, (*LION, Inc., a Washington corporation (f/k/a Plenum Communications, Inc., a Minnesota corporation); and Allen Ringer and Jane Doe Ringer, individually and as a marital community vs. Great American Insurance Co., an Ohio corporation*) with a trial date set for August 9, 2004. The Company is seeking for judgment against Great American in the amount of \$392,820 for costs of defense; for the amount of \$340,000 for the indemnity payment to the former director, for an amount no less than \$57,600 for prejudgment interest on amounts paid, and for all of the Company's attorney's fees and costs. The Company is further seeking an award of damages under the Washington Consumer Protection Act and an award of consequential damages incurred and sustained by LION as a result of the alleged bad faith conduct of Great American. The action was commenced on April 1, 2003, by service on the Insurance Commissioner of the State of Washington as agent for the defendant. No amounts have been accrued in the December 31, 2003 financial statements in anticipation of these recoveries.

In June 2001, the Company received notification from the Business Software Alliance (the "BSA"), an organization representing certain members of the software industry, regarding the presence of unlicensed software products at the Company. The Company conducted a voluntary audit and corrective actions were taken. In November 2002, the Company agreed to settle with the BSA for compensation of past software licensing infringements and penalties in the amount of \$50,000, which was recorded in Other Expense.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE I - WARRANTS

The Company had the following warrants outstanding to purchase common shares as of December 31:

	2003	2002
Warrants issued as a finders fee for financing whereby one warrant entitles the holder to purchase one share of common stock at an exercise price of \$.60, expiring through April 2003	-	105,000
Warrants issued for legal services related to financing whereby one warrant entitles the holder to purchase one share of common stock at an exercise price of \$.78, expiring through March 2003	-	200,000
Warrants issued in conjunction with the Private Placement whereby one warrant entitles the holder to purchase one share of common stock at an exercise price of \$.40, expiring through March 2004	1,166,667	1,166,667
Total	1,166,667	1,471,667

NOTE J - STOCK OPTIONS

The Company has a stock option plan accounted for under FASB Statement No. 123 “Accounting for Stock- Based Compensation.” The plan allows the Company to grant options to employees for up to 50,000 shares of common stock per employee. Employee directors are eligible to receive option grants and direct stock issuances. Non-employee directors receive as an initial retainer options to purchase 50,000 shares of common stock, exercisable at not less than the fair market value of the Company’s common stock on the day of grant. Thereafter, non-employee directors receive automatic option grants each year to purchase 15,000 shares of common stock upon their reelection at the annual meeting of shareholders. At December 31, 2003, 1,551,308 shares are available for future issuance under the plan. Options currently outstanding vest over a zero to five year period. Stock options are exercisable at not less than the market value of the Company’s common stock on the date of grant.

The fair value of option grants are estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in fiscal year 2003: expected volatility ranging from 129.01% to 132.03%; risk-free interest rate ranging from 3.58% to 3.83%; expected lives of 10 years; and, a zero percent dividend yield. The following weighted average assumptions were used for grants in fiscal year 2002: expected volatility of 112.43%; risk-free interest rate of 3.83%; expected lives ranging from 4 to 10 years; and, a zero percent dividend yield.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE J - STOCK OPTIONS - Continued

The Company recorded notes receivable from shareholders totaling \$21,250 during 2001, for the exercise of these stock options. During 2002, the notes receivable of \$21,250 was canceled and the related shares totaling 125,000 were retired due to non-payment of accrued interest and principal.

A summary of the Company's stock option plan activity is as follows:

Stock options	2003		2002	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	5,803,900	\$ .54	5,822,000	\$ .56
Granted	3,635,000	.16	451,900	.12
Forfeited	(1,409,375)	.58	(455,000)	.40
Exercised	(101,116)	.19	(15,000)	.06
Outstanding at end of year	<u>7,928,409</u>	<u>\$ .36</u>	<u>5,803,900</u>	<u>\$ .54</u>
Options exercisable at end of year	<u>4,368,790</u>	<u>\$ .50</u>	<u>4,302,088</u>	<u>\$ .57</u>
Weighted-average fair value of options granted during the year		<u>\$ .21</u>		<u>\$ .09</u>

The following is a summary of stock options outstanding at December 31, 2003:

Exercise price	Outstanding Options			Options Exercisable	
	Number	Weighted-average price	Weighted-average remaining contractual life	Number	Weighted-average exercise price
\$ .04 - \$ .25	6,246,409	\$ 0.17	7.84 years	2,794,353	\$ 0.17
\$ .26 - \$ .50	37,000	\$ 0.42	3.6 years	26,625	\$ 0.44
\$ .51 - \$ .75	150,000	\$ 0.64	.98 years	141,250	\$ 0.63
\$ .76 - \$1.00	940,000	\$ 0.82	1.05 years	909,375	\$ 0.82
\$1.01 - \$1.93	555,000	\$ 1.67	.34 years	497,187	\$ 1.67
	<u>7,928,409</u>			<u>4,368,790</u>	

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE K - SUPPLEMENTAL CASH FLOW INFORMATION AND NON-CASH INVESTING AND FINANCING ACTIVITIES

Supplemental disclosure of cash flow information and non-cash investing and financing activities is as follows for December 31:

	2003	2002
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 20,214	\$ 13,780
Non-cash investing and financing activities		
Common stock retired for cancellation of notes receivable	\$ -	\$ 21,250
Assets acquired under capital leases and notes payable	\$ 139,255	\$ 37,829

On December 8, 2003, the Company purchased substantially all of the operating assets of Ignition Mortgage Technology Solutions, Inc. (see Note B). In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 4,358,799
Extraordinary gain on assets acquired	(2,103,946)
Cash paid	(1,000)
Liabilities assumed	\$ 2,253,853

NOTE L - RETIREMENT PLAN

The Company adopted a salary deferral retirement plan, or 401(k) plan, in April 2000. The plan covers all employees who meet the plan's eligibility requirements. Employees are eligible if they are at least age 18, they have completed the earlier of 1 year of service or 3 consecutive full calendar months of employment, their employment is not governed by terms of a collective bargaining agreement and they are not non-resident aliens who do not receive earned income from LION. The Company can make discretionary contributions to the plan. No contributions were made by the Company for the years ended December 31, 2003 and 2002.

NOTE M – CONCENTRATION OF CREDIT RISK

The Company has two customers in the mortgage industry whose accounts receivable balance represents 24% of the Company's total accounts receivable balance at December 31, 2003. Both customers had a zero balance at December 31, 2002.

NOTE N – RELATED PARTY TRANSACTIONS

In June 2003, the Company hired Tim Newberry as a consultant to help develop product plans for LION's core business. Fees for services rendered by Mr. Newberry during 2003 were \$64,000 of

which \$60,000 was paid in 2003 and \$4,000 was paid in 2004. On December 8, 2003, Mr. Newberry became Co-President in charge of operations for LION.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE N – RELATED PARTY TRANSACTIONS - Continued

During 2003, Randall Miles, a member of the Board of Directors, and SCM Capital Group LLC, of which Mr. Miles is the sole general partner, were collectively paid \$280,000 for financial advisory services related to the acquisition of Ignition. On December 8, 2003, Mr. Miles became the Chief Executive Officer and Chairman of the Board of LION.

NOTE O – EARNINGS PER SHARE

The computational components of basic and diluted earnings (loss) per share are as follows:

	Numerator -	2003 Denominator -	Per Share
	Income	Shares	Amount
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Basic EPS			
Income before extraordinary gain	\$ 793,112	31,650,664	\$ .03
Extraordinary gain net of income tax expense of \$76,271	<u>2,027,675</u>		<u>.06</u>
	<u>\$ 2,820,787</u>		<u>\$ .09</u>
Effect of potential common stock			
Stock options		470,772	
Preferred stock		<u>1,500,000</u>	
Diluted EPS			
Income before extraordinary gain	\$ 793,112	33,621,436	\$ .02
Extraordinary gain net of income tax expense of \$76,271	<u>2,027,675</u>		<u>.06</u>
	<u>\$ 2,820,787</u>		<u>\$ .08</u>
	Numerator -	2002 Denominator -	Per Share
	Loss	Shares	Amount
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Basic and diluted EPS	\$ (109,087)	31,244,711	\$ -

During 2002, the effect of certain securities was anti-dilutive and, therefore, not included in the diluted loss per share calculation. As a result, diluted loss per share is the same as basic loss per share in 2002.

LION, Inc.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

NOTE P – PREFERRED STOCK

The Company issued 1,500,000 shares of preferred stock through a private placement offering in March 2001. Due to anti-dilution provisions, the conversion price of Series A Preferred Stock has been adjusted so that each share is now convertible at the rate of approximately 1.03 shares of Common Stock for each share of Series A Preferred Stock. The holder of each share of Series A Preferred Stock has the right to one vote for each share of Common Stock into which such Preferred Stock could then be converted.

NOTE Q - QUARTERLY RESULTS (UNAUDITED)

The following is a summary of unaudited results of operations for the two years ended December 31, 2003 and 2002:

Fiscal Year Ended December 31, 2003:	<u>Revenues</u>	<u>Operating Income (Loss)</u>	<u>Net Income (Loss)</u>	Net income (loss) per basic common share	Net income (loss) per diluted common share
First Quarter	\$ 1,786,720	\$ 159,640	\$ 155,703	\$ -	\$ -
Second Quarter	\$ 1,830,974	\$ 134,720	\$ 130,778	\$ -	\$ -
Third Quarter	\$ 1,869,702	\$ 119,418	\$ 115,355	\$ -	\$ -
Fourth Quarter	\$ 2,646,692	\$ 426,190	\$ 2,418,951	\$ .08	\$ .07
Fiscal Year Ended December 31, 2002:					
First Quarter	\$ 1,510,963	\$ (38,535)	\$ (40,896)	\$ -	\$ -
Second Quarter	\$ 1,606,313	\$ 26,907	\$ (324,834)	\$ (.01)	\$ (.01)
Third Quarter	\$ 1,628,238	\$ 157,926	\$ 115,461	\$ -	\$ -
Fourth Quarter	\$ 1,664,054	\$ 143,447	\$ 141,182	\$ -	\$ -

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 8A. CONTROLS AND PROCEDURES**

In December 2003, concurrent with closing the Ignition asset purchase the Company announced the appointment of Randall Miles as Chief Executive Officer.

**Evaluation of Disclosure Controls and Procedures.**

Under the supervision and with the participation of our 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 Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (“Evaluation Date.”).

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective to ensure that the information relating to LION required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to LION’s management as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our internal controls over financial reporting.

### PART III

#### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is information concerning our directors, executive officers and other key employees.

<u>Name</u>	<u>Age</u>	<u>Position</u>
<i>Directors:</i>		
Randall D. Miles (1) (3)	47	Chairman, director
John A. McMillan (3)	72	Director
David Stedman	54	Director
J.C. "Tuck" Marshall (1)	57	Director
Sam Ringer	44	Director
Griffith J. Straw (2)	55	Director
Jacob L. Smith (1) (2)	64	Director
<i>Executive Officers:</i>		
Randall D. Miles	47	CEO
David Stedman	54	Co-President, Sales and Marketing
Tim Newberry	42	Co-President, Operations
Steve Thomson	51	CFO, Corporate Secretary, Treasurer

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of Nominating Committee

Following is a discussion of the business background of each director and executive officer. All directors were elected to a one-year term at the Annual Meeting held December 13, 2002. Randall Miles, CEO, David Stedman, Co-President, and Sam Ringer, co-founder, are full-time employees of the Company. The other directors devote only such time as may be necessary to our business and affairs. There are no family relationships among any of the directors or executive officers of the Company.

#### DIRECTORS:

RANDALL D. MILES has been a director of the Company since September 2002 and became Chairman and CEO in December 2003. Mr. Miles has over 20 years of experience in investment banking and financial services. He served as Managing Director of Investment Banking at D.A. Davidson & Co. from September 2001 to October 2003. During the period from June 1996 to September 2001, Mr. Miles was President and CEO of Advantage Funding Group, Inc, President of NAFCO Funding LLC, President of Quadrant Investment Bankers, Inc., and Managing Director of CBA Partners LLC and The Stone Pine Companies. Mr. Miles has served in a senior executive capacity at both large and mid-sized investment and merchant banks during the course of his career with particular focus on providing strategic and financial advisory counsel to public and private companies in many industry sectors that include software and technology. His transactional experience includes mergers and acquisitions, public and private capital raising as well as structured finance expertise. Mr. Miles graduated from the University of Washington in 1979 with a degree in finance

and sits on the board of directors of privately held companies as well as non-profit charitable organizations.

JOHN A. MCMILLAN has been a director of the Company since January 1999, and served as Chief Executive Officer from October 1999 through August 2002. Mr. McMillan is a Director and member of the Executive Committee of the Board of Directors for Nordstrom, Inc. Mr. McMillan has been associated with Nordstrom for 40 years and served as a member of the Office of Chief Executive Officer from 1971 to 1996. Mr. McMillan's business and civic affiliations include sitting on the Board of Directors for Vision Youth (Chairman), ZION Preparatory Academy Capitol Campaign (Chairman), Urban Enterprise Council, Bob Walsh Enterprises, Global Partnerships, and Seattle Pacific University.

DAVID STEDMAN has been a director since August 2002 and served as Chief Executive Officer of the Company from August 2002 to December 2003, as President of LION since January 2001 to December 2003 and as Co-President since December 2003. Mr. Stedman joined LionInc.com, the former subsidiary of LION, in May 1999 as Vice President of Marketing & Sales. He served as its COO from January 2000 and as its President from October 2000 until its merger with the Company. Mr. Stedman has over 20 years of marketing experience that includes expertise in market analysis, systems development, strategic and market planning, identity creation, advertising and public relations. From 1989 to 1999 Mr. Stedman was a Vice President/Director of Marketing for Safeco Properties, a real estate development subsidiary of Safeco Insurance. Prior to Safeco Properties, Mr. Stedman held a number of positions with advertising agencies both here in the Northwest. Along with winning a variety of national and local advertising awards, Mr. Stedman has been a guest speaker for a design class at the University of Washington and has presented to a variety of business organizations. Mr. Stedman serves on the Board of Directors of a non-profit charitable organization.

J.C. (TUCK) MARSHALL was appointed to the Board of Directors in July 1999. Mr. Marshall formerly served as President of the National Association of Mortgage Brokers (NAMB) and is currently the president of J.C. Marshall Financial Services Inc., a licensed brokerage of mortgages, real estate, and insurance in Tinley Park, Illinois. He is a former president of Margo Financial Services LLC, a national provider of wholesale residential mortgages and a division of Argo FSB. He is a former president of the Illinois Association of Mortgage Brokers Education Foundation and a member of the UG/UIG Advisory Board. He was formerly Advisory Association Member for Chase Mortgage. His past accomplishments also include president of the Illinois Association of Mortgage Brokers, NAMB Regional broker of the Year in 1995, NAMB Volunteer of the Year in 1996/1997, NAMB Legislative Chairman in 1998, and the receipt of the NAMB 2002 Distinguished Service Industry Award. As President of NAMB, Mr. Marshall developed contacts at all levels of congress and state governments through his lobbying efforts. He also developed strong working relationships with the leadership of the national and state mortgage broker associations along with the nation's leading mortgage industry companies. Mr. Marshall served as interim President of LionInc.com from March 2000 to October 2000.

SAM RINGER has been a director of the Company since 1989. From March 2000 to January 2001, he served as Chief Technology Officer of LionInc.com. He served as Chief Executive Officer of LionInc.com from February 1999 to March 2000, and as its President from 1997 to March 2000, and during the period from 1991 through 1995. Mr. Ringer was co-founder, co-architect and author of the

LION software. He received his training as a computer engineer and programmer in Spokane, WA at Spokane Falls Community College and Gonzaga University. Prior to his tenure with the Company, Mr. Ringer served for two years as a mortgage broker at MorNet Mortgage, a Seattle mortgage brokerage firm.

JACOB SMITH has been a director of the Company since June 1998. Mr. Smith has practiced business and civil law in Lynden, Washington for the last thirty-three years, with an emphasis on real estate, estate planning, and municipal law. He is the senior partner in the Lynden law firm of Smith Kosanke and Wright which he founded in 1972. Mr. Smith received a B.S. degree in Chemical Engineering from the University of Washington in 1962. He received a J.D. law degree from Willamette University Law School in Salem, Oregon in 1965. Mr. Smith is past president of the Whatcom County Bar Association.

GRIFFITH J. STRAW has been a director of the Company since September 2002. Since May 2002, Mr. Straw has served as Regional Sales Director of United Guaranty Residential Insurance Company. Mr. Straw has more than 20 years experience in the mortgage banking industry. His previous positions include Director of Business Development at Freddie Mac, McLean, Virginia from October 1994 to March 2002. He served as Senior Vice President, Director of Marketing at Frontline Mortgage from May 1993 to October 1994 and Senior Vice President at National Pacific Mortgage from 1987 to 1992. Mr. Straw received his designation as a CMB (Certified Mortgage Banker) from the Mortgage Bankers Association of America (“MBA”) in 2000. He is also a Faculty Fellow for the MBA’s School of Mortgage Banking and was designated as a member of the Master Faculty in 2001. In November 1998, *Mortgage Technology* magazine named Mr. Straw as one of the year’s top seven mortgage “technologists” in recognition of his role in creating online business opportunities for Freddie Mac.

#### OFFICERS:

RANDALL MILES has served as the Chief Executive Officer of the Company since December 2003. See additional comments above for Mr. Miles under the heading “DIRECTORS”.

DAVID STEDMAN has served as Co-President of LION with responsibility for sales and marketing since December 31, 2003. Mr. Stedman was also Chief Executive Officer of the Company from August 2002 to December 2003 and President from January 2001 to December 2003. See additional comments above for Mr. Stedman under the heading “DIRECTORS”.

TIM NEWBERRY has served as Co-President of LION with responsibility for operations and product development since December 2003. Mr. Newberry has been developing and managing electronic technology for over 20 years and came to LION following 10 years at Ignition Mortgage Technology Solutions, Inc. where he held senior executive positions with oversight of sales, marketing, software development and risk management. Prior to employment with Ignition and its predecessor, Tuttle & Co., Mr. Newberry managed development of healthcare software systems as a Vice President for DeRoyal Industries. Mr. Newberry is an active member of the Mortgage Bankers Association of America and has served as a member of its Technology Committee. Mr. Newberry is a frequent speaker at mortgage industry conferences on the topics of mortgage technology, risk-based pricing, point-of-sale applications, and secondary marketing.

STEVE THOMSON, CFO of LION as of January 2001, joined LionInc.com in March 1998 as its Controller. From 1995 to 1998, Mr. Thomson worked as a consultant with a number of high tech and Internet related companies including Sierra Online, Inc. and N2H2, Inc. From 1988 to 1995, Mr. Thomson served as Controller and Division Manager with Vanier, a \$130 million subsidiary of American Business Products. From 1979 to 1986, Mr. Thomson was in public accounting with Price Waterhouse. Mr. Thomson received a B.A. degree in Business Administration from the University of Washington in 1976 and has been a CPA since 1981.

## **INFORMATION REGARDING THE BOARD AND ITS COMMITTEES**

The Board of Directors represents the interests of our stockholders as a whole and is responsible for directing the management of the business and affairs of LION, as provided by Washington law. Our board of directors is composed of seven members. Each director currently serves until the next annual meeting of stockholders or until his successor is duly elected and qualified. Our bylaws provide that the authorized number of directors will be between three and nine, with the exact number to be determined by a majority of our board of directors or stockholders.

### **COMMITTEES OF THE BOARD OF DIRECTORS**

The standing committees of the Board of Directors of the Company are the Audit Committee, Compensation Committee and Nominating Committee. Our board of directors may establish other committees to facilitate the management of our business. Below is a description of each committee of the Board of Directors.

**Audit Committee.** The Audit Committee assists our Board of Directors in its oversight of the quality and integrity of our accounting, auditing, and reporting practices. The Audit Committee's role includes discussing with management the Company's processes to manage business and financial risk, and for compliance with applicable legal and regulatory requirements. The Audit Committee is responsible for the appointment, replacement, compensation, and oversight of the independent auditor engaged to prepare or issue audit reports on our financial statements. The Audit Committee relies on the expertise and knowledge of management, any internal auditors, and the independent auditor in carrying out its oversight responsibilities. The specific responsibilities in carrying out the Audit Committee's oversight role are set forth in the LION Audit Committee Charter. The Audit Committee Charter is reviewed annually and as may be required due to changes in industry accounting practices or the promulgation of new rules or guidance documents.

The Audit Committee consists of Messrs. Miles, Marshall and Smith. Two of the three current members of the Audit Committee, Messrs. Marshall and Smith, are "independent" as defined by Rule 4200(a)(15) of the NASD's listing standards. In connection with his assumption of the role of Chief Executive Officer of LION in December 2003, Mr. Miles has made or will make certain certifications required under the Sarbanes-Oxley Act of 2002 and the related rules adopted by the SEC with respect to (i) our financial statements and other financial information included in periodic reports filed with the SEC, (ii) our disclosure controls and procedures regarding the disclosure to the certifying officers of material information relating to the Company, and (iii) our internal controls and whether there are any

deficiencies in the design or operation of such internal controls. Although not independent, Mr. Miles has remained on the Audit Committee and meets with and makes reports to the Audit Committee with respect to the items which are the subject matter of his certifications and other matters. Because LION is not listed on a national securities exchange, neither SEC regulations nor listing standards require each member of the audit committee to be independent. Accordingly, we cannot assure you that the Board will have the necessary authority and practices in place to review and evaluate LION's business operations and to make decisions that are independent of our management.

We do not have an "audit committee financial expert" serving on our Audit Committee, as that term is defined by SEC rules, which is basically limited to those who have prepared, audited, or directly supervised the audit of comparable public company financial statements. Our Board has not determined that any of the current members of the Committee is an audit committee financial expert; however, it has determined that each Audit Committee member has sufficient knowledge in financial and auditing matters to effectively serve and carry out the duties and responsibilities of the Committee. Furthermore, the Committee has authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities. Nevertheless, the Board believes it may be possible to recruit a person who meets the qualifications and is actively searching for a person to serve on the Board who would qualify as an audit committee financial expert.

**Compensation Committee.** The Compensation Committee reviews retirement and benefit plans and salaries and incentive compensation to be provided to our executive personnel, employees, and consultants, and recommends appropriate compensation and benefit levels. The Compensation Committee also administers our current stock option plan, including the approval of grants and options under the plan to our employees, consultants and directors and, in general, oversees general policy matters relating to our various compensation plans, including payroll, option, stock, medical and bonus plans.

**Nominating Committee.** The Nominating Committee is responsible for identifying and recommending to the Board of Directors qualified nominees to become board members and considers shareholder recommendations for nominees to fill Board positions if such recommendations are received. The Nominating Committee also recommends to the Board of Directors regarding the size and composition of the Board as well as carrying out the duties set forth in the LION Nominating Committee Charter.

The Nominating Committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements, being over 25 years of age, having business experience at a policy-making level, and having high moral character. They should be committed to enhancing stockholder value and should have sufficient time to carry out their duties. Their service on other boards of public companies should be limited to a number that permits them to perform responsibly all director duties. The Committee retains the right to modify these minimum qualifications from time to time.

***Stockholder nominees.*** The Nominating Committee will consider director candidates recommended by stockholders provided the procedures set forth below are followed by stockholders in submitting recommendations. The Committee does not intend to alter in the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether the candidate

was recommended by a stockholder or not. Any such recommendations by stockholders should include the nominee's name and qualifications for board membership and (together with any materials provided in connection with the nomination of a director candidate) should be addressed to: Corporate Secretary, LION, Inc., 4700-42<sup>nd</sup> Ave. SW, Suite 430, Seattle, WA, 98116. In addition, to be timely, the recommendation must be received by the Corporate Secretary within the time period prescribed for "Stockholder Proposals," as set forth in our proxy statement for our 2004 annual meeting.

### **Code of Ethics**

We have adopted a Code of Ethics that applies to our executive officers, including financial officers and other finance organization employees. The Code of Ethics is publicly available on our website at [www.lioncorp.net/lioncorp/information](http://www.lioncorp.net/lioncorp/information). If we make any substantive amendments to the Code of Ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer or Corporate Controller, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our directors and executive officers, and persons who own more than ten percent of the our common stock, file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater-than-ten percent shareholders are required by the SEC regulation to furnish us with copies of all Section 16(a) forms they file. Specific due dates have been established by the SEC, and we are required to disclose in this report any failure to file by those dates.

We believe that there has been compliance with all Section 16(a) filing requirements applicable to our officers, directors and ten-percent beneficial owners.

## ITEM 10. EXECUTIVE COMPENSATION

The following summary compensation table indicates the cash and non-cash compensation earned during the fiscal years ended December 31, 2003, 2002 and 2001 by our Chief Executive Officer and the other most highly compensated executive officers serving during the year ended December 31, 2003.

<u>Summary Compensation Table*</u>					
<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>		<u>Long-Term Compensation</u>	
		<u>Salary</u>	<u>Other</u>	<u>Stock Awards</u>	<u>Securities Underlying Options/Warrants</u>
Randall Miles, CEO <sup>(1)</sup>	2003	\$ 12,179	–	–	1,000,000
	2002	–	–	–	68,450
David Stedman, President/CEO <sup>(1)</sup>	2003	\$ 120,000	\$ 10,200 <sup>(2)</sup>	–	300,000
	2002	\$ 106,100	\$ 19,800 <sup>(2)</sup>	–	–
	2001	\$ 119,900	–	–	500,000
Steve Thomson, CFO	2003	\$ 104,000	\$ 9,400 <sup>(3)</sup>	–	–
	2002	\$ 92,600	\$ 18,600 <sup>(3)</sup>	–	–
	2001	\$ 76,100	\$ 36,500 <sup>(3)</sup>	–	400,000

(\*) Columns in the Summary Compensation Table that were not relevant to the compensation paid to the Named Executive Officers were omitted.

- (1) Mr. Stedman served as CEO from August 2002 to December 8, 2003, and Mr. Miles has served as CEO since December 8, 2003.
- (2) During 2003, 143,000 shares of common stock were issued in lieu of cash compensation at fair market value with prices ranging from \$.055 to \$.128. During 2002, 276,500 shares of common stock were issued in lieu of cash compensation at fair market value with prices ranging from \$.06 to \$.08 per share.
- (3) During 2003, 133,000 shares of common stock were issued in lieu of cash compensation at fair market value with prices ranging from \$.055 to \$.128. During 2002, 248,500 shares of common stock were issued in lieu of cash compensation at fair market value with prices ranging from \$.06 to \$.08 per share. During 2001, 320,000 shares of common stock were issued in lieu of cash compensation at fair market value with prices ranging from \$.10 to \$.15 per share.

## OPTION GRANTS LAST FISCAL YEAR.

The following table sets forth information regarding options granted to our executive officers during 2003.

<u>Name and Principal Position</u>	<u>Number of securities underlying stock options granted</u>	<u>Percent of total stock options granted to employees in fiscal year</u>	<u>Exercise or base price (\$/Sh)</u>	<u>Expiration date</u>
Randall Miles, CEO	1,000,000	27.5%	\$0.18	12/08/13
David Stedman, President/CEO	300,000	8.3%	\$0.19	7/14/13

During the year ended December 31, 2003, we granted employees 3,635,000 options to purchase shares of our common stock. The options have a ten-year term, but are subject to earlier forfeiture or cancellation in connection with termination of employment or upon the optionee's death or disability. 400,000 options vest based on the completion of specific projects. 1,000,000 options vest as follows; 1/3 each when the 20 day trading average equals \$.35, \$.70, and \$1.00. The remaining options vest at 6 1/4 % each quarter over sixteen quarters.

## AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUE TABLE.

The following table provides information with respect to stock options exercised by our named executive officers during the fiscal year ended December 31, 2003 and unexercised options held as of December 31, 2003. No stock appreciation rights were exercised during 2003 or were outstanding at December 31, 2003.

<u>Name</u>	<u>Shares Acquired on Exercise</u>		<u>Number of Securities Underlying Unexercised Options/Warrants at Fiscal Year-End (#)</u>		<u>Value of Unexercised In-the-Money Options/Warrants at Fiscal Year-End (\$)</u>	
	<u>(#)</u>	<u>Value Realized (\$)</u>	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Randall Miles, CEO Options	–	–	68,450	1,000,000	\$ 12,471	\$ 70,000
David Stedman, President/CEO Options	47,991	\$ 9,598	736,384	265,625	\$ 24,850	\$ 15,750
Steve Thomson, CFO Options	45,000	\$ 9,000	651,875	3,125	\$ 17,750	–

## COMPENSATION OF DIRECTORS

We provide no cash compensation to any of our directors for serving on our board of directors or for attendance of meetings of committees of the board of directors. Non-employee directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors and committees of the board of directors. Employee directors are eligible to receive option grants and direct stock issuances under our 1998 Stock Option Plan. Non-employee directors receive as an initial retainer options to purchase 50,000 shares of common stock, exercisable at not less than the fair market value of the Company's common stock on the day of grant. Thereafter, under our 1998 Stock Plan, non-employee directors receive automatic option grants each year to purchase 15,000 shares of common stock upon their reelection at the annual meeting of shareholders.

## EMPLOYMENT AGREEMENTS

In December 2003, the Company entered into a three year employment agreement with Randall D. Miles, its CEO. The employment agreement provides for an initial annual salary of \$200,000 and may include a bonus. In the event employment is terminated by the Company without cause, Mr. Miles will be entitled to a severance payment of 50% of his annual compensation. Mr. Miles is also entitled to receive, at the Company's expense, continuation of medical, dental and disability benefits for 6 months following termination without cause.

In December 2003, the Company entered into a three year employment agreement with Timothy F. Newberry, its Co-President of Operations. The employment agreement provides for an initial annual salary of \$200,000 and may include a bonus. In the event employment is terminated by the Company without cause, Mr. Newberry will be entitled to a severance payment of 50% of his annual compensation. Mr. Newberry is also entitled to receive, at the Company's expense, continuation of medical, dental and disability benefits for 6 months following termination without cause.

In October 2001, the Company entered into employment agreements with Dave Stedman, its President, and Steve Thomson, its CFO. The employment agreements for Mr. Stedman and Mr. Thomson provided for initial annual salaries of \$125,000 and \$110,000, respectively. Each agreement has a term of three years and provides that the compensation will include a base and may include a bonus. In the event that employment is terminated by the Company without cause, they will be entitled to a severance payment of 50% of their annual compensation. They are also entitled to receive, at the Company's expense, continuation of medical, dental and disability benefits for 6 months following termination without cause. Each agreement provides that they may elect to receive up to 20% of their salary in the form of restricted stock grants, valued using the 20 day trailing average closing price on the date of grant.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth certain information that has been provided to the Company regarding the beneficial ownership as of December 31, 2003 of the Company's common stock by (a) each person who is known by the Company to be a beneficial owner of more than five percent of the outstanding common stock of the Company, (b) each director of the Company, (c) each of the executive officers named in the Summary Compensation Table on this Form 10 - KSB, and (d) all directors and executive officers of the Company as a group.

<u>Name and Address <sup>(1)</sup> Of Beneficial Owner</u>	<u>Shares <sup>(2)</sup> Beneficially Owned</u>	<u>Percent <sup>(3)</sup> of Voting of Shares</u>
<i>Directors and Executive Officers:</i>		
John A. McMillan	2,645,966 <sup>(4)</sup>	7.74%
J.C. (Tuck) Marshall	680,000 <sup>(5)</sup>	2.01%
Jacob L. Smith	170,000 <sup>(6)</sup>	*
Sam Ringer	1,708,920 <sup>(7)</sup>	5.10%
David Stedman	1,241,375 <sup>(8)</sup>	3.64%
Steve Thomson	1,398,375 <sup>(9)</sup>	4.12%
Randall D. Miles	68,450 <sup>(10)</sup>	*
Griffith J. Straw	68,450 <sup>(11)</sup>	*
<i>Other beneficial owners:</i>		
ICM Asset Management, Inc.	1,500,000 <sup>(12)</sup>	4.50%
All directors and executive officers as a group (9 persons)	8,015,136	22.02%

\* Less than one percent.

<sup>(1)</sup> Except as noted below, the business address of the directors and executive officers is 4700-42<sup>nd</sup> Avenue SW, Suite 430, Seattle, WA 98116.

<sup>(2)</sup> Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are exercisable within 60 days of December 31, 2003 are deemed outstanding. These shares, however, are not deemed outstanding for purposes of computing the ownership of any other person. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the stockholders named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

<sup>(3)</sup> Percentage of beneficial ownership is based upon 33,319,094 voting shares outstanding as of December 31, 2003, consisting of 31,819,094 shares of common stock and 1,500,000 shares of Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock held by the person or group noted in the footnotes to this table is convertible into an equivalent number of shares of common stock.

- (4) Includes 30,000 shares vested stock options and 833,333 shares underlying unexercised warrants.
- (5) Includes 480,000 vested stock options.
- (6) Includes 15,000 vested stock options.
- (7) Includes 166,667 shares underlying unexercised warrants.
- (8) Includes 773,884 vested stock options.
- (9) Includes 651,875 vested stock options.
- (10) Includes 68,450 vested stock options.
- (11) Includes 68,450 vested stock options.
- (12) ICM Asset Management, Inc. is deemed the beneficial owner of the 1,500,000 voting shares of Series A Preferred Stock by Koyah Leverage Partners LP, Koyah Partners LP and Jim Simmons because of their power to vote and dispose of those shares. The address of ICM Asset Management, Inc. is 601 W. Main Ave., Suite 600, Spokane, WA 99201.

#### **EQUITY COMPENSATION PLAN INFORMATION.**

The following table gives information about equity awards under the Company's 1998 Plan and the individual equity arrangements as of December 31, 2003.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities available for future issuance under equity compensation plans [excluding securities reflected in column (a)]
Equity compensation plans approved by security holders <sup>(1)</sup>	7,928,409	\$.36	1,551,308
Equity compensation plans not approved by security holders <sup>(2)</sup>	298,742	\$.16	-
Total	8,227,151	\$.35	1,551,308

(1) The Company maintains the 1998 Stock Option Plan pursuant to which it may grant options to eligible persons.

(2) The numbers set forth in the table include potential awards of common stock pursuant to salary conversion rights given to senior management in their employment agreements which were not required to be submitted to our stockholders for approval. The shares are valued using the 20 day trailing average closing price on the date of grant. The aggregate number of shares available for issuance is estimated based upon the average high and low bid price for LION's common stock for each quarter during 2003, as published by the OTC Bulletin Board. The individual plans are described more fully in Item 10 above.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Randall Miles has served as a director of the Company since October 2002. Effective December 8, 2003, Mr. Miles became Chairman and CEO of the Company. In October 2003, Mr. Miles was paid a non-refundable cash retainer in the amount of \$30,000 to provide financial advisory services related to the potential purchase of assets of Ignition Mortgage Technology Solutions, Inc. The agreement provided for a success fee in the amount of \$250,000 if the transaction was consummated. On December 8, 2003, the Company acquired the assets of Ignition Mortgage Technology Solutions, Inc., and the success fee of \$250,000 was paid to SCM Capital Group LLC, an entity owned by Mr. Miles.

Tim Newberry has served as Co-President in charge of operations since December 8, 2003. In June 2003, the Company hired Mr. Newberry as a consultant to help develop product plans for LION's core business. Fees for consulting services rendered by Mr. Newberry during 2003 totaled \$64,000.

## ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

### (a) EXHIBITS:

Exhibits are incorporated as part of this Annual Report by reference or are filed with this report as indicated below (numbered in accordance with Item 601 of Regulation S-B):

- 3.3 Articles of Incorporation of LION, Inc., incorporated by reference to Exhibit B to the Company's Definitive Proxy Statement dated October 20, 2000.
- 3.4 By laws of LION, Inc., a Washington corporation, incorporated by reference to Exhibit C to the Company's Definitive Proxy Statement dated October 20, 2000.
- 10.1 1998 Stock Option Plan with Form of Option Agreement, incorporated by reference to Registration Statement on Form S-8 filed July 28, 2003 (File No. 333-107402).
- 10.6 Office Suite Lease Agreement (Denver Property) dated as of September 19, 2000, incorporated by reference to the same exhibit number to the Company's Form 10 - QSB for the quarter ended September 30, 2000.
- 10.8 Premises Lease Agreement (Seattle Property) – effective date August 1, 2001, incorporated by reference to the same exhibit number to the Company's Form 10 – QSB for the quarter ended June 30, 2001.
- 10.9 Employment Agreement – S. Thomson, incorporated by reference to the same exhibit number to the Company's Form 10 – KSB for the year ended December 31, 2001.
- 10.10 Employment Agreement – D. Stedman, incorporated by reference to the same exhibit number to the Company's Form 10 – KSB for the year ended December 31, 2001.
- 10.11 Alliance Agreement dated May 6, 2002 between LION, Inc. and IMX, Inc., incorporated by reference to the same exhibit number to the Company's Form 8-K filed on June 6, 2002.
- 10.12 Lease Amendment # 2 (Denver Property) dated as of October 21, 2002, incorporated by reference to the same exhibit number to the Company's Form 10-KSB for the year ended December 31, 2002.
- 10.13 Asset Purchase Agreement dated December 8, 2003, by and among LION, Inc., Freddie Mac, and Ignition Mortgage Technology Solutions, Inc., incorporated by reference to the Report on Form 8-K filed December 23, 2003.
- 10.14 Employment Agreement – Randall D. Miles.
- 10.15 Employment Agreement – Timothy F. Newberry
- 14.1 Code of Ethics for CEO and Senior Financial Officers.
- 23.1 Consent of Grant Thornton LLP.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

(b) REPORTS ON FORM 8-K

The following reports on Form 8-K were filed during the quarter ended December 31, 2003:

<b><u>Date of the Report</u></b>	<b><u>Item Reported</u></b>
October 29, 2003	Rescheduling of annual meeting of stockholders.
December 23, 2003	Acquisition of certain assets of Ignition Mortgage Technology Solutions, Inc.

The following reports were furnished under Item 12 of Form 8-K during the quarter ended December 31, 2003:

<b><u>Date of the Report</u></b>	<b><u>Description</u></b>
October 29, 2003	Earnings Release – Preliminary Results for quarter ended September 30, 2003

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees paid to Grant Thornton (audit and non-audit)

The following table presents fees for professional audit services rendered by Grant Thornton LLP for the audit of our annual financial statements for the years ended December 31, 2003 and 2002, and the reviews of the financial statements included in each of our quarterly reports on Form 10-QSB during the fiscal year ended December 31, 2003 and 2002, and fees billed for other services rendered by Grant Thornton LLP during those periods. Certain amounts for 2002 have been reclassified to conform to the 2003 presentation.

Fee Category	2003	2002
Audit Fees	\$ 54,390	\$ 48,917
Tax Fees	26,181	13,634
All Other Fees	94,500	855
	\$ 175,071	\$ 63,406

*Audit fees.* Consist of assurance and related services that are reasonably related to the performance of the audit or review of LION's financial statements. This category includes fees related to the performance of audits and attest services not required by statute or regulations, audits of the Company's stock option plans, additional revenue compliance procedures related to performance of the review or audit of our financial statements, and accounting consultations regarding the application of GAAP to proposed transactions.

*Tax Fees.* Consist of the aggregate fees billed for professional services rendered by Grant Thornton LLP for tax compliance, tax advice, and tax planning. These services include preparation of federal and state income tax returns. Included in tax fees are \$5,000 of accrued acquisition costs that were billed by Grant Thornton in 2004.

*All Other Fees.* Consists of fees related to the acquisition of assets of Ignition Mortgage Technology Solutions, Inc. and review of our Form S-8 registration statement in 2003. Included in other fees in 2003 are \$72,500 of accrued acquisition costs that were billed by Grant Thornton in 2004. Fees in 2002 represent fees for services other than services reported above. All other fees may also include fees for services which would not impair the independence of the auditor which support our evaluation of the effectiveness of our internal controls and enhance the auditor's understanding of our system and controls not included in Audit Related Fees.

## SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, Washington, on March 30, 2004.

LION, Inc.  
(Registrant)

By: /s/ Randall D. Miles  
Randall D. Miles  
CEO

In accordance with the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Randall D. Miles	Chairman of the Board and CEO	March 30, 2004
/s/ John A. McMillan	Director	March 30, 2004
/s/ David Stedman	Director and Co-President	March 30, 2004
/s/ J.C. (Tuck) Marshall	Director	March 30, 2004
/s/ Griffith J. Straw	Director	March 30, 2004
/s/ Sam Ringer	Director	March 30, 2004
/s/ Jacob L. Smith	Director	March 30, 2004
/s/ Steve Thomson	CFO	March 30, 2004
/s/ Lisa Bouchakian Dunn	Controller	March 30, 2004

## EXHIBIT INDEX

- 3.3 Articles of Incorporation of LION, Inc., incorporated by reference to Exhibit B to the Company's Definitive Proxy Statement dated October 20, 2000.
- 3.4 By laws of LION, Inc., a Washington corporation, incorporated by reference to Exhibit C to the Company's Definitive Proxy Statement dated October 20, 2000.
- 10.1 1998 Stock Option Plan with Form of Option Agreement, incorporated by reference to Registration Statement on Form S-8 filed July 28, 2003 (File No. 333-107402).
- 10.6 Office Suite Lease Agreement (Denver Property) dated as of September 19, 2000, incorporated by reference to the same exhibit number to the Company's Form 10 - QSB for the quarter ended September 30, 2000.
- 10.8 Premises Lease Agreement (Seattle Property) – effective date August 1, 2001, incorporated by reference to the same exhibit number to the Company's Form 10 – QSB for the quarter ended June 30, 2001.
- 10.9 Employment Agreement – S. Thomson, incorporated by reference to the same exhibit number to the Company's Form 10 – KSB for the year ended December 31, 2001.
- 10.10 Employment Agreement – D. Stedman, incorporated by reference to the same exhibit number to the Company's Form 10 – KSB for the year ended December 31, 2001.
- 10.11 Alliance Agreement dated May 6, 2002 between LION, Inc. and IMX, Inc., incorporated by reference to the same exhibit number to the Company's Form 8-K filed on June 6, 2002.
- 10.12 Lease Amendment # 2 (Denver Property) dated as of October 21, 2002, incorporated by reference to the same exhibit number to the Company's Form 10-KSB for the year ended December 31, 2002.
- 10.13 Asset Purchase Agreement dated December 8, 2003, by and among LION, Inc., Freddie Mac, and Ignition Mortgage Technology Solutions, Inc., incorporated by reference to the Report on Form 8-K filed December 23, 2003.
- 10.14 Employment Agreement – Randall D. Miles.
- 10.15 Employment Agreement – Timothy F. Newberry.
- 14.1 Code of Ethics for CEO and Senior Financial Officers.
- 23.1 Consent of Grant Thornton LLP.
- 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

**EMPLOYMENT AGREEMENT LION, INC.**  
(Randall D. Miles, CEO)

This Employment Agreement (this "Agreement") is made effective the 8th day of December, 2003 ("Effective Date"), by LION, Inc. ("Employer"), and Randall D. Miles, Chief Executive Officer of LION, Inc. ("Executive").

**RECITALS**

Employer desires Executive's employment with Employer, and Executive wishes to accept such employment, upon the terms and conditions set forth in this Agreement.

**AGREEMENT**

The parties, intending to be legally bound, agree as follows:

**1. DEFINITIONS**

For the purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1.

1.1 "Basic Compensation" is defined as Salary and Benefits (see Section 3.1.1 and 3.1.2).

1.2 "Bonus Compensation" is defined in Section 3.2.

1.3 "Cause" is defined in Section 6.2

1.4 "Confidential Information" is defined as the following information and materials in written, oral, magnetic, photographic, optical or other form and whether now existing or developed or created during the term of this Agreement which are proprietary to Employer and are highly sensitive in nature.

1.4.1 Information Marked Proprietary or Confidential. All data, documents, materials, drawings and information in tangible form and marked "Proprietary" or "Confidential."

1.4.2 Products. Any and all ideas, designs, inventions, discoveries, processes, methods, plans, concepts, methods, techniques, structures, specifications, design specifications, design notes, flow charts, documentation, technical and engineering data, laboratory studies, test results and any other information and materials, whether or not in tangible form, relating to Employer's operations.

1.4.3 Trade Secrets. All Employer's trade secrets, as defined in the Washington Trade Secrets Law, RCW 19.108 et seq. and including without limitation, the specific terms of Employer's relationships or agreements with significant vendors and customers, and targeted

prospective vendors and customers; Employer's customer list; and information concerning Employer's management, finance, marketing and business plans.

1.4.4 Legal Rights. Patents, copyrights, trade secrets, trademarks, and service marks ("Intellectual Property"), including any documents containing information concerning such Intellectual Property.

1.4.5 Third Party Information. Any and all information and materials in Employer's possession or under its control from any other person or entity which Employer is obligated to treat as confidential or proprietary ("Third Party Information").

1.4.6 Not Generally Known. Any and all information not generally known to the public or within the industries or trades in which Employer competes.

1.5 "Effective Date" means the date stated in the first paragraph of the Agreement.

1.6 "Employment Period" means the period beginning on the Effective Date and ending on termination of Executive's employment pursuant to Section 6.

1.7 "Person" is any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or governmental body.

1.8 "Post-Employment Period" is defined in Section 8.2.4.

1.9 "Proprietary Items" is defined in Section 7.2.4.

1.10 "Salary" is defined in Section 3.1.1.

1.11 "Severance Benefit" is defined as 50% of the Executive's annual salary for the calendar year in which this Agreement is terminated, together with continuation of Benefits as defined in Sections 3.1.2 and 6.3.5 herein, at the level the Executive is receiving at the time of Termination for six months immediately following the Date of Termination.

1.12 "Stock" – Common stock of LION, Inc.

## **2.0 EMPLOYMENT AND DUTIES**

### **2.1 EMPLOYMENT**

Employer hereby employs Executive, and Executive hereby accepts employment by Employer, upon the terms and conditions set forth in this Agreement.

## 2.2 TERM

Subject to the provision of Section 6, the term of Executive's employment under this Agreement will be three (3) years, beginning on the effective date (December 8, 2003) and ending on the third anniversary of the Effective Date.

## 2.3 DUTIES

Executive will have such duties as are assigned or delegated to Executive by the Board of Directors of Employer and will serve as Chief Executive Officer. Executive will devote his entire business, time, attention, skill, and energy exclusively to the business of Employer, will use his best efforts to promote the success of Employer's business, and will cooperate fully with the Board of Directors in the advancement of the best interests of Employer. If Executive is elected as a director of Employer or as a director or officer of any of its affiliates, Executive will fulfill his duties as such director or officer without additional compensation.

## 3.0 COMPENSATION

### BASIC COMPENSATION

3.1.1 Salary. Executive will be paid an annual salary of \$200,000/year subject to adjustment as provided below (the "Salary"), which will be payable in equal periodic installments according to Employer's customary payroll practices, but no less frequently than monthly. The Salary and Benefits (i.e. Basic Compensation) will be reviewed by the Board of Directors not less frequently than annually.

3.1.2 Benefits. Executive will, during the Employment Period, be permitted to participate in such pension, profit sharing, bonus, life insurance, hospitalization, major medical, and other employee benefit plans of Employer that may be in effect from time to time, to the extent Executive is eligible under the terms of those plans (collectively, the "Benefits").

### 3.2 BONUS COMPENSATION

Annually the Compensation Committee will review and/or determine any bonus compensation plans or changes thereto for the Executive (Exhibit A).

## 4.0 FACILITIES AND EXPENSES

### 4.1 GENERAL

Employer will furnish Executive office space, equipment, supplies, and such other facilities and personnel as Employer deems necessary or appropriate for the performance of Executive's duties under this Agreement. Employer will pay on behalf of Executive (or reimburse Executive for) reasonable expenses incurred by Executive at the request of, or on behalf of, Employer in the performance of Executive's duties pursuant to this Agreement, and in accordance with Employer's

policies. Executive must file expense reports with respect to such expenses in accordance with Employer's policies.

#### 4.2 BUSINESS EXPENSES

Employer shall reimburse Executive for all reasonable, ordinary and necessary business expenses incurred by Executive in the performance of his duties and the promotion of the Employer's business.

#### 4.3 CELLULAR PHONE

Employer will pay for and provide Executive with a cellular phone, phone service and wireless connectivity device for business use if so requested by the Executive.

### 5. VACATIONS AND HOLIDAYS

Executive will be entitled to vacation each calendar year in accordance with the vacation policies of Employer in effect for its employee officers from time to time, in any event not less than four (4) weeks vacation a year. Vacation must be taken by Executive at such time or times as approved by the Board of Directors. Executive will also be entitled to the paid holidays set forth in Employer's policies. Vacation days and holidays during any calendar year that are not used by Executive during such calendar year may not be used in any subsequent calendar year without Employer's prior written consent.

### 6. TERMINATION

#### 6.1 EVENTS OF TERMINATION

The Employment Period, Executive's Salary and Benefits and any and all other rights of Executive under this Agreement or otherwise as an employee of Employer will terminate (except as otherwise provided in this Section 6) on the earliest of:

6.1.1 Upon the death of Executive;

6.1.2 Upon written notice by Executive;

6.1.3 Upon written notice by Employer;

6.1.4 For Cause (as defined in Section 6.2), immediately upon notice from Employer to Executive, or at such later time as such notice may specify.

#### 6.2 DEFINITION OF "FOR CAUSE"

For purposes of Section 6.2, "Cause for Employer" shall mean any of the following: (i) Executive's theft, dishonesty, or falsification of Employer's documents or records; (ii) Executive's participation in a fraud or act of dishonesty against Employer; (iii) any action taken in bad faith by

Executive which has a detrimental effect on Employer's reputation or business; (iv) Executive's willful failure or inability to perform any reasonable assigned duties that is not remedied by Executive within forty five (45) days of written notice of such failure or inability from Employer; (v) Executive's unremedied material breach of this Agreement after receipt of the written notice discussed above, or any violation of Employer's written policies constituting gross intentional misconduct adversely and demonstrably affecting Employer's business or reputation; or (vi) Executive's conviction (including any plea of guilty or *nolo contendere*) of any felony or crime involving dishonesty.

For purposes of Section 6.2, "Cause for Executive" shall mean any one of the following events which occurs without Executive's consent: (i) any reduction of Executive's then existing compensation or benefits, except to the extent that such compensation of all other senior executives of Employer is equally reduced; (ii) any material diminution of Executive's duties, responsibilities, authority, reporting structure, titles or offices provided Executive gives Employer written notice of such material diminution and it is not remedied by Employer within thirty (30) days of receipt of such notice; (iii) any request that Executive relocate to a work site that would increase Executive's one-way commute distance by more than fifty (50) miles from Executive's then principal residence; (iv) any material breach by Employer of its obligations under this Agreement that is not remedied by Company within thirty (30) days of written notice of such breach from Executive; (v) another entity or person becoming the majority owner through a hostile takeover of Employer; or (vi) a slate of directors is elected, a majority of which were not recommended by the existing directors and management prior to the vote.

### 6.3 TERMINATION PAY

Effective upon the termination of this Agreement, Employer will be obligated to pay Executive only such compensation as is provided in this Section 6.3, and in lieu of all other amounts and in settlement and complete release of all claims Executive may have against Employer.

6.3.1 Termination by Employer For Cause or Termination by Executive Without Cause. If Employer terminates this Agreement for Cause, or Executive terminates this Agreement without cause, Executive will be entitled to receive his Salary only through the date such termination is effective.

6.3.2 Termination Upon Death. If this Agreement is terminated because of Executive's death, Executive will be entitled to receive his Salary through the end of the calendar month in which his death occurs, plus a Severance Benefit.

6.3.3 Termination By Employer Without Cause. If Employer terminates this Agreement without Cause, Employer will pay Executive his Salary through the end of the calendar month in which such termination occurs. Employer will also pay the Severance Benefit.

6.3.4 Termination By Executive For Cause. If the Executive terminates this Agreement "for cause", the Employer will pay Executive his Salary through the end of the calendar month in which such termination occurs. Employer will also pay the Severance Benefit.

6.3.5 Benefits. Executive's accrual of, or participation in plans providing for benefits will cease at the effective date of the termination of this Agreement, and Executive will be entitled to

accrued Benefits pursuant to such plans only as provided in such plans. Following the Termination Date, the Executive has the right to continue coverage under the Company's health insurance plans as provided by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), provided the Executive makes a timely election for such continued coverage. However, if the Executive terminates "for cause" or the Employer terminates the Executive "without cause", Employer will provide, at no expense to the Executive during the 6 month Severance Period, any health insurance benefits provided under the Employer's Plans.

## **7.0 NON-DISCLOSURE COVENANT**

### **7.1 ACKNOWLEDGMENTS BY THE EXECUTIVE**

Executive acknowledges that (a) during the Employment Period and as a part of his employment, Executive will be afforded access to Confidential Information; (b) public disclosure of such Confidential Information could have an adverse effect on Employer and its business; and (c) the provisions of this Section 7 are reasonable and necessary to prevent the improper use or disclosure of Confidential Information.

### **7.2 AGREEMENTS OF THE EXECUTIVE**

In consideration of the compensation and benefits to be paid or provided to Executive by Employer under this Agreement, Executive covenants as follows:

7.2.1 During and following the Employment Period, Executive will hold in confidence the Confidential Information and will not disclose it to any person except with the specific prior written consent of Employer or except as otherwise expressly permitted by the terms of this Agreement.

7.2.2 Any trade secrets of Employer will be entitled to all of the protections and benefits under Washington trade secret law, RCW 19.108 et seq., and any other applicable law. If any information that Employer deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Executive hereby waives any requirement that Employer submit proof of the economic value of any trade secret or post a bond or other security.

7.2.3 None of the foregoing obligations and restrictions applies to any part of the Confidential Information that Executive demonstrates was or became generally available to the public other than as a result of a disclosure by Executive.

7.2.4 Executive will not remove from Employer's premises (except to the extent such removal is for purposes of the performance of Executive's duties at home or while traveling, or except as otherwise specifically authorized by Employer) any document, record, notebook, plan, model, component, device, or computer software or code, whether embodied in a disk or in any other form (collectively, the "Proprietary Items"). Executive recognizes that, as between Employer and Executive, all of the Proprietary Items, whether or not developed by Executive, are the exclusive property of Employer. Upon termination of this Agreement by either party, or upon the request of Employer during the Employment Period, Executive will return to Employer all of the Proprietary Items in Executive's

possession or subject to Executive's control, and Executive shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items.

### 7.3 DISPUTES OR CONTROVERSIES

Executive recognizes that should a dispute or controversy arising from or relating to this Agreement be submitted for adjudication to any court, arbitration panel, or other third party, the preservation of the secrecy of Confidential Information may be jeopardized. All pleadings, documents, testimony, and records relating to any such adjudication will be maintained in secrecy and will be available for inspection by Employer, Executive, and their respective attorneys and experts, who will agree, in advance and in writing, to receive and maintain all such information in secrecy, except as may be limited by them in writing.

## 8.0 NON-COMPETITION AND NON-INTERFERENCE

### 8.1 ACKNOWLEDGMENTS BY THE EXECUTIVE

Executive acknowledges that: (a) the services to be performed by him under this Agreement are of a special, unique, unusual, extraordinary, and intellectual character; (b) Employer competes with other businesses that are or could be located in any part of the world; and (c) the provisions of this Section 8 are reasonable and necessary to protect Employer's business.

Executive acknowledges that the products or activities and services of the Employer include, but are not limited to, the acquisition, assemblance, marketing and sales of Employer's products and services, including industry web site development and hosting, rate and fee content information from lenders for mortgage brokers, and Internet-based technology solutions for mortgage brokers and lenders. Executive further acknowledges that the products, activities, and services of the Employer may expand during Executive's term of employment, and that the provisions of this Section 8 apply to all products, activities, and services of Employer in effect at the time of Executive's termination.

### 8.2 COVENANTS OF THE EXECUTIVE

In consideration of the acknowledgments by Executive, and in consideration of the compensation and benefits to be paid or provided to Executive by Employer, Executive covenants that he will not, directly or indirectly:

8.2.1 During the Employment Period, except in the course of his employment hereunder, engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend Executive's name or any similar name to, lend Executive's credit to or render services or advice to, any business whose products or activities compete in whole or in part with the products or activities of Employer anywhere within the United States; provided, however, that Executive may purchase or otherwise acquire up to (but not more than) one percent of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

8.2.2 Whether for Executive's own account or for the account of any other person, at any time during the Employment Period and the Post-Employment Period, solicit business of the same or similar type being carried on by Employer, from any person known by Executive to be a customer of Employer, whether or not Executive had personal contact with such person during and by reason of Executive's employment with Employer;

8.2.3 Whether for Executive's own account or the account of any other person (a) at any time during the Employment Period and the Post-Employment Period, solicit, employ, or otherwise engage as an employee, independent contractor, or otherwise, any person who is an employee of Employer or in any manner induce or attempt to induce any employee of Employer to terminate his employment with Employer; or (b) at any time during the Employment Period and the Post Employment Period, interfere with Employer's relationship with any person, including any person who at any time during the Employment Period was an employee, contractor, supplier, or customer of Employer; or

8.2.4 At any time during or after the Employment Period, disparage Employer or any of its shareholders, directors, officers, employees, or agents.

For purposes of this Section 8.2, the term "Post-Employment Period" means the 1 year period beginning on the date of termination of Executive's employment with Employer.

If any covenant in this Section 8.2 is held to be unreasonable, arbitrary, or against public policy, such covenant will be considered to be divisible with respect to scope, time, and geographic area, and such lesser scope, time, or geographic area, or all of them, as a court of competent jurisdiction may determine to be reasonable, not arbitrary, and not against public policy, will be effective, binding, and enforceable against Executive.

The period of time applicable to any covenant in this Section 8.2 will be extended by the duration of any violation by Executive of such covenant.

Executive will, while the covenant under this Section 8.2 is in effect, give notice to Employer, within ten days after accepting any other employment, of the identity of Executive's employer. Employer may notify such employer that Executive is bound by this Agreement and, at Employer's election, furnish such employer with a copy of this Agreement or relevant portions thereof.

## **9.0 GENERAL PROVISIONS**

### **9.1 INJUNCTIVE RELIEF AND ADDITIONAL REMEDY**

Executive acknowledges that the injury that would be suffered by Employer as a result of a breach of the provisions of this Agreement (including any provision of Sections 7 and 8) would be irreparable and that an award of monetary damages to Employer for such a breach would be an inadequate remedy. Consequently, Employer will have the right, in addition to any other rights it may have, to obtain injunctive relief to restrain any breach or threatened breach or otherwise to specifically enforce any provision of this Agreement. Without limiting Employer's rights under this Section 9 or any

other remedies of Employer, if Executive breaches any of the provisions of Section 7 or 8, Employer will have the right to cease making any payments otherwise due to Executive under this Agreement.

## 9.2 COVENANTS OF SECTIONS 7 AND 8 ARE ESSENTIAL AND INDEPENDENT COVENANTS

The covenants by Executive in Sections 7 and 8 are essential elements of this Agreement, and without Executive's agreement to comply with such covenants, Employer would not have entered into this Agreement or employed Executive. Executive has independently consulted his counsel and has been advised in all respects concerning the reasonableness and propriety of such covenants, with specific regard to the nature of the business conducted by Employer.

Executive's covenants in Sections 7 and 8 are independent covenants and the existence of any claim by Executive against Employer under this Agreement or otherwise, will not excuse Executive's breach of any covenant in Section 7 or 8.

If Executive's employment hereunder expires or is terminated, this Agreement will continue in full force and effect as is necessary or appropriate to enforce the covenants and agreements of Executive in Sections 7 and 8.

## 9.3 REPRESENTATIONS AND WARRANTIES BY THE EXECUTIVE

Executive represents and warrants to Employer that the execution and delivery by Executive of this Agreement do not, and the performance by Executive of Executive's obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (a) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to Executive; or (b) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which Executive is a party or by which Executive is or may be bound.

## 9.4 OBLIGATIONS CONTINGENT ON PERFORMANCE

The obligations of Employer hereunder, including its obligation to pay the compensation provided for herein, are contingent upon Executive's performance of Executive's obligations hereunder.

## 9.5 WAIVER

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by either party in exercising any right, power, or privilege under this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any

obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement.

#### 9.6 BINDING EFFECT; DELEGATION OF DUTIES PROHIBITED

This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective successors, assigns, heirs, and legal representatives, including any entity with which Employer may merge or consolidate or to which all or substantially all of its assets may be transferred. The duties and covenants of Executive under this Agreement, being personal, may not be delegated.

#### 9.7 NOTICES

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by facsimile (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):

If to Executive:

Randall D. Miles  
751 20th Av E  
Seattle, WA 98112  
Telephone No.: (206) 322- 5240

or to such other addresses and faxes as the parties may from time to time designate in writing.

If to Employer:

Board of Directors  
LION, Inc.  
4700-42<sup>nd</sup> Ave. SW, Suite 430  
Seattle, WA 98116  
Telephone No.: (206) 577-1440

or to such other addresses and telephone numbers as the Employer may from time to time designate in writing.

#### 9.8 ENTIRE AGREEMENT; AMENDMENTS

This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, between the parties hereto with respect to the subject matter hereof, provided, however, that any prior or contemporaneous agreements between the parties concerning confidentiality, intellectual property,

inventions, non-competition, and/or non-solicitation shall remain in full force and effect if and to the extent that they provide greater protection to Employer. This Agreement may not be amended orally, but only by an agreement in writing signed by the parties hereto.

## 9.9 ARBITRATION

Except when injunctive relief is sought by Employer pursuant to Section 9.1, Employer and Executive shall settle any and all claims, disputes or controversies arising out of or relating to Executive's candidacy for employment, employment and/or cessation of employment with Employer, exclusively by final and binding arbitration before a single neutral Arbitrator. Such claims include claims under federal, state and local statutory or common law; wrongful termination; claims for wages, including, but not limited to, claims under the Fair Labor Standards Act, Washington Minimum Wage Act, or other state equivalent; breach of public policy; claims of discrimination or harassment, including, but not limited to, claims under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act, the Washington Law Against Discrimination, and any other state or local discrimination laws. The arbitration shall be submitted to the American Arbitration Association, and it shall be conducted in Seattle, Washington in accordance with the Commercial Dispute Resolution Procedures then in effect. Judgment upon the award rendered may be entered only in King County Superior Court.

## 9.1 GOVERNING LAW

This Agreement will be governed by the laws of the State of Washington without regard to conflicts of laws principles.

## 9.11 JURISDICTION

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against either of the parties in the courts of the State of Washington, County of King, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on either party anywhere in the world.

## 9.12 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement unless otherwise specified. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

## 9.13 SEVERABILITY

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of

this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

9.14 DRAFTSMANSHIP

There shall be no presumption of draftsmanship in the preparation or execution of this Agreement.

9.15 COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date above first written above.

EMPLOYER :

EXECUTIVE :

/s/ David Stedman  
David Stedman, President & CEO

/s/ Randall D. Miles  
Randall D. Miles

**EMPLOYMENT AGREEMENT LION, INC.**  
(Timothy F. Newberry, Co-President)

This Employment Agreement (this "Agreement") is made effective the 8th day of December, 2003 ("Effective Date"), by LION, Inc. ("Employer"), and Timothy F. Newberry, Co-President of LION, Inc. ("Executive").

**RECITALS**

Employer desires Executive's employment with Employer, and Executive wishes to accept such employment, upon the terms and conditions set forth in this Agreement.

**AGREEMENT**

The parties, intending to be legally bound, agree as follows:

**1. DEFINITIONS**

For the purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1.

1.1 "Basic Compensation" is defined as Salary and Benefits (see Section 3.1.1 and 3.1.2).

1.2 "Bonus Compensation" is defined in Section 3.2.

1.3 "Cause" is defined in Section 6.2

1.4 "Confidential Information" is defined as the following information and materials in written, oral, magnetic, photographic, optical or other form and whether now existing or developed or created during the term of this Agreement which are proprietary to Employer and are highly sensitive in nature.

1.4.1 Information Marked Proprietary or Confidential All data, documents, materials, drawings and information in tangible form and marked "Proprietary" or "Confidential."

1.4.2 Products. Any and all ideas, designs, inventions, discoveries, processes, methods, plans, concepts, methods, techniques, structures, specifications, design specifications, design notes, flow charts, documentation, technical and engineering data, laboratory studies, test results and any other information and materials, whether or not in tangible form, relating to Employer's operations.

1.4.3 Trade Secrets. All Employer's trade secrets, as defined in the Washington Trade Secrets Law, RCW 19.108 et seq. and including without limitation, the specific terms of Employer's relationships or agreements with significant vendors and customers, and targeted

prospective vendors and customers; Employer's customer list; and information concerning Employer's management, finance, marketing and business plans.

1.4.4 Legal Rights. Patents, copyrights, trade secrets, trademarks, and service marks ("Intellectual Property"), including any documents containing information concerning such Intellectual Property.

1.4.5 Third Party Information. Any and all information and materials in Employer's possession or under its control from any other person or entity which Employer is obligated to treat as confidential or proprietary ("Third Party Information").

1.4.6 Not Generally Known. Any and all information not generally known to the public or within the industries or trades in which Employer competes.

1.5 "Effective Date" means the date stated in the first paragraph of the Agreement.

1.6 "Employment Period" means the period beginning on the Effective Date and ending on termination of Executive's employment pursuant to Section 6.

1.7 "Person" is any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or governmental body.

1.8 "Post-Employment Period" is defined in Section 8.2.4.

1.9 "Proprietary Items" is defined in Section 7.2.4.

1.10 "Salary" is defined in Section 3.1.1.

1.11 "Severance Benefit" is defined as 50% of the Executive's annual salary for the calendar year in which this Agreement is terminated, together with continuation of Benefits as defined in Sections 3.1.2 and 6.3.5 herein, at the level the Executive is receiving at the time of Termination for six months immediately following the Date of Termination.

1.12 "Stock" – Common stock of LION, Inc.

## **2. EMPLOYMENT AND DUTIES**

### **2.1 EMPLOYMENT**

Employer hereby employs Executive, and Executive hereby accepts employment by Employer, upon the terms and conditions set forth in this Agreement.

### **2.2 TERM**

Subject to the provision of Section 6, the term of Executive's employment under this Agreement will be three (3) years, beginning on the effective date (December 8, 2003) and ending on the third anniversary of the Effective Date.

### 2.3 DUTIES

Executive will have such duties as are assigned or delegated to Executive by the Chief Executive Officer of Employer and will serve as Co-President, Operations. Executive will devote his entire business, time, attention, skill, and energy exclusively to the business of Employer, will use his best efforts to promote the success of Employer's business, and will cooperate fully with the Chief Executive Officer and the Board of Directors in the advancement of the best interests of Employer. If Executive is elected as a director of Employer or as a director or officer of any of its affiliates, Executive will fulfill his duties as such director or officer without additional compensation.

## 3. COMPENSATION

### 3.1 BASIC COMPENSATION

3.1.1 Salary. Executive will be paid an annual salary of \$200,000/year subject to adjustment as provided below (the "Salary"), which will be payable in equal periodic installments according to Employer's customary payroll practices, but no less frequently than monthly. The Salary and Benefits (i.e. Basic Compensation) will be reviewed by the Board of Directors not less frequently than annually.

3.1.2 Benefits. Executive will, during the Employment Period, be permitted to participate in such pension, profit sharing, bonus, life insurance, hospitalization, major medical, and other employee benefit plans of Employer that may be in effect from time to time, to the extent Executive is eligible under the terms of those plans (collectively, the "Benefits").

### 3.2 BONUS COMPENSATION

Annually the Compensation Committee will review and/or determine any bonus compensation plans or changes thereto for the Executive (Exhibit A).

## 4.0 FACILITIES AND EXPENSES

### 4.1 GENERAL

Employer will furnish Executive office space, equipment, supplies, and such other facilities and personnel as Employer deems necessary or appropriate for the performance of Executive's duties under this Agreement. Employer will pay on behalf of Executive (or reimburse Executive for) reasonable expenses incurred by Executive at the request of, or on behalf of, Employer in the performance of Executive's duties pursuant to this Agreement, and in accordance with Employer's policies. Executive must file expense reports with respect to such expenses in accordance with Employer's policies.

#### 4.2 BUSINESS EXPENSES

Employer shall reimburse Executive for all reasonable, ordinary and necessary business expenses incurred by Executive in the performance of his duties and the promotion of the Employer's business.

#### 4.3 CELLULAR PHONE

Employer will pay for and provide Executive with a cellular phone, phone service and wireless connectivity device for business use if so requested by the Executive.

### 5. VACATIONS AND HOLIDAYS

Executive will be entitled to vacation each calendar year in accordance with the vacation policies of Employer in effect for its employee officers from time to time, in any event not less than four (4) weeks vacation a year. Vacation must be taken by Executive at such time or times as approved by the Board of Directors. Executive will also be entitled to the paid holidays set forth in Employer's policies. Vacation days and holidays during any calendar year that are not used by Executive during such calendar year may not be used in any subsequent calendar year without Employer's prior written consent.

### 6. TERMINATION

#### 6.1 EVENTS OF TERMINATION

The Employment Period, Executive's Salary and Benefits and any and all other rights of Executive under this Agreement or otherwise as an employee of Employer will terminate (except as otherwise provided in this Section 6) on the earliest of:

6.1.1 Upon the death of Executive;

6.1.2 Upon written notice by Executive;

6.1.3 Upon written notice by Employer;

6.1.4 For Cause (as defined in Section 6.2), immediately upon notice from Employer to Executive, or at such later time as such notice may specify.

#### 6.2 DEFINITION OF "FOR CAUSE"

For purposes of Section 6.2, "Cause for Employer" shall mean any of the following: (i) Executive's theft, dishonesty, or falsification of Employer's documents or records; (ii) Executive's participation in a fraud or act of dishonesty against Employer; (iii) any action taken in bad faith by Executive which has a detrimental effect on Employer's reputation or business; (iv) Executive's willful failure or inability to perform any reasonable assigned duties that is not remedied by Executive within forty five (45) days of written notice of such failure or inability from Employer; (v) Executive's

unremedied material breach of this Agreement after receipt of the written notice discussed above, or any violation of Employer's written policies constituting gross intentional misconduct adversely and demonstrably affecting Employer's business or reputation; or (vi) Executive's conviction (including any plea of guilty or *nolo contendere*) of any felony or crime involving dishonesty.

For purposes of Section 6.2, "Cause for Executive" shall mean any one of the following events which occurs without Executive's consent: (i) any reduction of Executive's then existing compensation or benefits, except to the extent that such compensation of all other senior executives of Employer is equally reduced; (ii) any material diminution of Executive's duties, responsibilities, authority, reporting structure, titles or offices provided Executive gives Employer written notice of such material diminution and it is not remedied by Employer within thirty (30) days of receipt of such notice; (iii) any request that Executive relocate to a work site that would increase Executive's one-way commute distance by more than fifty (50) miles from Executive's then principal residence; (iv) any material breach by Employer of its obligations under this Agreement that is not remedied by Company within thirty (30) days of written notice of such breach from Executive; (v) another entity or person becoming the majority owner through a hostile takeover of Employer; or (vi) a slate of directors is elected, a majority of which were not recommended by the existing directors and management prior to the vote.

### 6.3 TERMINATION PAY

Effective upon the termination of this Agreement, Employer will be obligated to pay Executive only such compensation as is provided in this Section 6.3, and in lieu of all other amounts and in settlement and complete release of all claims Executive may have against Employer.

6.3.1 Termination by Employer For Cause or Termination by Executive Without Cause. If Employer terminates this Agreement for Cause, or Executive terminates this Agreement without cause, Executive will be entitled to receive his Salary only through the date such termination is effective.

6.3.2 Termination Upon Death. If this Agreement is terminated because of Executive's death, Executive will be entitled to receive his Salary through the end of the calendar month in which his death occurs, plus a Severance Benefit.

6.3.3 Termination By Employer Without Cause. If Employer terminates this Agreement without Cause, Employer will pay Executive his Salary through the end of the calendar month in which such termination occurs. Employer will also pay the Severance Benefit.

6.3.4 Termination By Executive For Cause. If the Executive terminates this Agreement "for cause", the Employer will pay Executive his Salary through the end of the calendar month in which such termination occurs. Employer will also pay the Severance Benefit.

6.3.5 Benefits. Executive's accrual of, or participation in plans providing for benefits will cease at the effective date of the termination of this Agreement, and Executive will be entitled to accrued Benefits pursuant to such plans only as provided in such plans. Following the Termination Date, the Executive has the right to continue coverage under the Company's health insurance plans as provided by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"),

provided the Executive makes a timely election for such continued coverage. However, if the Executive terminates "for cause" or the Employer terminates the Executive "without cause", Employer will provide, at no expense to the Executive during the 6 month Severance Period, any health insurance benefits provided under the Employer's Plans.

## **7. NON-DISCLOSURE COVENANT**

### **7.1 ACKNOWLEDGMENTS BY THE EXECUTIVE**

Executive acknowledges that (a) during the Employment Period and as a part of his employment, Executive will be afforded access to Confidential Information; (b) public disclosure of such Confidential Information could have an adverse effect on Employer and its business; and (c) the provisions of this Section 7 are reasonable and necessary to prevent the improper use or disclosure of Confidential Information.

### **7.2 AGREEMENTS OF THE EXECUTIVE**

In consideration of the compensation and benefits to be paid or provided to Executive by Employer under this Agreement, Executive covenants as follows:

7.2.1 During and following the Employment Period, Executive will hold in confidence the Confidential Information and will not disclose it to any person except with the specific prior written consent of Employer or except as otherwise expressly permitted by the terms of this Agreement.

7.2.2 Any trade secrets of Employer will be entitled to all of the protections and benefits under Washington trade secret law, RCW 19.108 et seq., and any other applicable law. If any information that Employer deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Executive hereby waives any requirement that Employer submit proof of the economic value of any trade secret or post a bond or other security.

7.2.3 None of the foregoing obligations and restrictions applies to any part of the Confidential Information that Executive demonstrates was or became generally available to the public other than as a result of a disclosure by Executive.

7.2.4 Executive will not remove from Employer's premises (except to the extent such removal is for purposes of the performance of Executive's duties at home or while traveling, or except as otherwise specifically authorized by Employer) any document, record, notebook, plan, model, component, device, or computer software or code, whether embodied in a disk or in any other form (collectively, the "Proprietary Items"). Executive recognizes that, as between Employer and Executive, all of the Proprietary Items, whether or not developed by Executive, are the exclusive property of Employer. Upon termination of this Agreement by either party, or upon the request of Employer during the Employment Period, Executive will return to Employer all of the Proprietary Items in Executive's possession or subject to Executive's control, and Executive shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items.

### 7.3 DISPUTES OR CONTROVERSIES

Executive recognizes that should a dispute or controversy arising from or relating to this Agreement be submitted for adjudication to any court, arbitration panel, or other third party, the preservation of the secrecy of Confidential Information may be jeopardized. All pleadings, documents, testimony, and records relating to any such adjudication will be maintained in secrecy and will be available for inspection by Employer, Executive, and their respective attorneys and experts, who will agree, in advance and in writing, to receive and maintain all such information in secrecy, except as may be limited by them in writing.

## 8. NON-COMPETITION AND NON-INTERFERENCE

### 8.1 ACKNOWLEDGMENTS BY THE EXECUTIVE

Executive acknowledges that: (a) the services to be performed by him under this Agreement are of a special, unique, unusual, extraordinary, and intellectual character; (b) Employer competes with other businesses that are or could be located in any part of the world; and (c) the provisions of this Section 8 are reasonable and necessary to protect Employer's business.

Executive acknowledges that the products or activities and services of the Employer include, but are not limited to, the acquisition, assemblance, marketing and sales of Employer's products and services, including industry web site development and hosting, rate and fee content information from lenders for mortgage brokers, and Internet-based technology solutions for mortgage brokers and lenders. Executive further acknowledges that the products, activities, and services of the Employer may expand during Executive's term of employment, and that the provisions of this Section 8 apply to all products, activities, and services of Employer in effect at the time of Executive's termination.

### 8.2 COVENANTS OF THE EXECUTIVE

In consideration of the acknowledgments by Executive, and in consideration of the compensation and benefits to be paid or provided to Executive by Employer, Executive covenants that he will not, directly or indirectly:

8.2.1 During the Employment Period, except in the course of his employment hereunder, engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend Executive's name or any similar name to, lend Executive's credit to or render services or advice to, any business whose products or activities compete in whole or in part with the products or activities of Employer anywhere within the United States; provided, however, that Executive may purchase or otherwise acquire up to (but not more than) one percent of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

8.2.2 Whether for Executive's own account or for the account of any other person, at any time during the Employment Period and the Post-Employment Period, solicit business of the same

or similar type being carried on by Employer, from any person known by Executive to be a customer of Employer, whether or not Executive had personal contact with such person during and by reason of Executive's employment with Employer;

8.2.3 Whether for Executive's own account or the account of any other person (a) at any time during the Employment Period and the Post-Employment Period, solicit, employ, or otherwise engage as an employee, independent contractor, or otherwise, any person who is an employee of Employer or in any manner induce or attempt to induce any employee of Employer to terminate his employment with Employer; or (b) at any time during the Employment Period and the Post Employment Period, interfere with Employer's relationship with any person, including any person who at any time during the Employment Period was an employee, contractor, supplier, or customer of Employer; or

8.2.4 At any time during or after the Employment Period, disparage Employer or any of its shareholders, directors, officers, employees, or agents.

For purposes of this Section 8.2, the term "Post-Employment Period" means the 1 year period beginning on the date of termination of Executive's employment with Employer.

If any covenant in this Section 8.2 is held to be unreasonable, arbitrary, or against public policy, such covenant will be considered to be divisible with respect to scope, time, and geographic area, and such lesser scope, time, or geographic area, or all of them, as a court of competent jurisdiction may determine to be reasonable, not arbitrary, and not against public policy, will be effective, binding, and enforceable against Executive.

The period of time applicable to any covenant in this Section 8.2 will be extended by the duration of any violation by Executive of such covenant.

Executive will, while the covenant under this Section 8.2 is in effect, give notice to Employer, within ten days after accepting any other employment, of the identity of Executive's employer. Employer may notify such employer that Executive is bound by this Agreement and, at Employer's election, furnish such employer with a copy of this Agreement or relevant portions thereof.

## **9. GENERAL PROVISIONS**

### **9.1 INJUNCTIVE RELIEF AND ADDITIONAL REMEDY**

Executive acknowledges that the injury that would be suffered by Employer as a result of a breach of the provisions of this Agreement (including any provision of Sections 7 and 8) would be irreparable and that an award of monetary damages to Employer for such a breach would be an inadequate remedy. Consequently, Employer will have the right, in addition to any other rights it may have, to obtain injunctive relief to restrain any breach or threatened breach or otherwise to specifically enforce any provision of this Agreement. Without limiting Employer's rights under this Section 9 or any other remedies of Employer, if Executive breaches any of the provisions of Section 7 or 8, Employer will have the right to cease making any payments otherwise due to Executive under this Agreement.

## 9.2 COVENANTS OF SECTIONS 7 AND 8 ARE ESSENTIAL AND INDEPENDENT COVENANTS

The covenants by Executive in Sections 7 and 8 are essential elements of this Agreement, and without Executive's agreement to comply with such covenants, Employer would not have entered into this Agreement or employed Executive. Executive has independently consulted his counsel and has been advised in all respects concerning the reasonableness and propriety of such covenants, with specific regard to the nature of the business conducted by Employer.

Executive's covenants in Sections 7 and 8 are independent covenants and the existence of any claim by Executive against Employer under this Agreement or otherwise, will not excuse Executive's breach of any covenant in Section 7 or 8.

If Executive's employment hereunder expires or is terminated, this Agreement will continue in full force and effect as is necessary or appropriate to enforce the covenants and agreements of Executive in Sections 7 and 8.

## 9.3 REPRESENTATIONS AND WARRANTIES BY THE EXECUTIVE

Executive represents and warrants to Employer that the execution and delivery by Executive of this Agreement do not, and the performance by Executive of Executive's obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (a) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to Executive; or (b) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which Executive is a party or by which Executive is or may be bound.

## 9.4 OBLIGATIONS CONTINGENT ON PERFORMANCE

The obligations of Employer hereunder, including its obligation to pay the compensation provided for herein, are contingent upon Executive's performance of Executive's obligations hereunder.

## 9.5 WAIVER

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by either party in exercising any right, power, or privilege under this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement.

## 9.6 BINDING EFFECT; DELEGATION OF DUTIES PROHIBITED

This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective successors, assigns, heirs, and legal representatives, including any entity with which Employer may merge or consolidate or to which all or substantially all of its assets may be transferred. The duties and covenants of Executive under this Agreement, being personal, may not be delegated.

## 9.7 NOTICES

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by facsimile (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):

If to Executive:

Timothy F. Newberry  
42 Miwok Drive  
San Anselmo, CA 94960  
Telephone No.: (415) 264-7243

or to such other addresses and faxes as the parties may from time to time designate in writing.

If to Employer:

Chief Executive Officer  
LION, Inc.  
4700-42<sup>nd</sup> Ave. SW, Suite 430  
Seattle, WA 98116  
Telephone No.: (206) 577-1440

or to such other addresses and telephone numbers as the Employer may from time to time designate in writing.

## 9.8 ENTIRE AGREEMENT; AMENDMENTS

This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, between the parties hereto with respect to the subject matter hereof, provided, however, that any prior or contemporaneous agreements between the parties concerning confidentiality, intellectual property, inventions, non-competition, and/or non-solicitation shall remain in full force and effect if and to the extent that they provide greater protection to Employer. This Agreement may not be amended orally, but only by an agreement in writing signed by the parties hereto.

## 9.9 ARBITRATION

Except when injunctive relief is sought by Employer pursuant to Section 9.1, Employer and Executive shall settle any and all claims, disputes or controversies arising out of or relating to Executive's candidacy for employment, employment and/or cessation of employment with Employer, exclusively by final and binding arbitration before a single neutral Arbitrator. Such claims include claims under federal, state and local statutory or common law; wrongful termination; claims for wages, including, but not limited to, claims under the Fair Labor Standards Act, Washington Minimum Wage Act, or other state equivalent; breach of public policy; claims of discrimination or harassment, including, but not limited to, claims under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act, the Washington Law Against Discrimination, and any other state or local discrimination laws. The arbitration shall be submitted to the American Arbitration Association, and it shall be conducted in Seattle, Washington in accordance with the Commercial Dispute Resolution Procedures then in effect. Judgment upon the award rendered may be entered only in King County Superior Court.

## 9.10 GOVERNING LAW

This Agreement will be governed by the laws of the State of California without regard to conflicts of laws principles.

## 9.11 JURISDICTION

Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against either of the parties in the courts of the State of Washington, County of King, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on either party anywhere in the world.

## 9.12 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement unless otherwise specified. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

## 9.13 SEVERABILITY

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

9.14 DRAFTSMANSHIP

There shall be no presumption of draftsmanship in the preparation or execution of this Agreement.

9.15 COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date above first written above.

EMPLOYER :

EXECUTIVE :

---

Randall D. Miles  
Chief Executive Officer

---

Timothy F. Newberry

**CODE OF ETHICS FOR CEO AND SENIOR FINANCIAL OFFICERS**

LION, Inc. has adopted a Code of Ethics applicable to its principal executive officer and financial managers. The CEO and all senior financial officers, including the CFO and principal accounting officer or controller, are expected to abide by this Code and the provisions set forth herein relating to ethical conduct, conflicts of interest and compliance with law, as well as all business conduct standards and policies relating to areas covered by this Code applicable to directors and employees of the Company which may be adopted by the Board from time to time. If a law conflicts with a policy in this Code, you must comply with the law.

The CEO and all senior financial officers:

1. are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the SEC. Accordingly, it is the responsibility of the CEO and each senior financial officer promptly to bring to the attention of the Audit Committee any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings or otherwise assist the Audit Committee in fulfilling its responsibilities in a timely manner.
2. shall promptly bring to the attention of the Audit Committee any information he or she may have concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
3. shall promptly bring to the attention of the Company Counsel or the CEO and to the Audit Committee any information he or she may have concerning any violation of the Company's Code of Business Conduct and Ethics, and any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Company's financial reporting, disclosures or internal controls.
4. shall promptly bring to the attention of the Company Counsel or the CEO and to the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Company and the operation of its business, by the Company or any agent thereof, or of violation of this Code of Ethics.
5. shall not unduly or fraudulently influence, coerce, manipulate, or mislead any authorized audit or interfere with any auditor engaged in the performance of an internal or independent audit of LION's financial statements or accounting books and records.
6. shall comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.

7. shall avoid conflicts of interest in his or her personal and professional relationships that may conflict with the interests of the Company or make it difficult to perform his or her Company work objectively and effectively, *provided however*, that certain actual or apparent conflicts of interest shall be permissible if the contract, transaction, relationship or interest is disclosed or known to the Board of Directors or Board committee, or the shareholders of the Company, which in good faith authorizes, approves or ratifies the contract, transaction, relationship or interest in accordance with the bylaws of the Company.
8. shall not use confidential information acquired in the course of one's work for personal advantage, nor use or share that information for stock trading purposes. The CEO and all senior financial officers shall abide by the Company's specific policy governing employees trading in securities of the Company.
9. The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of violations of this Code of Ethics by the CEO and the Company's senior financial officers. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Code of Ethics, and shall include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.

Any waiver of this Code for the CEO and senior financial officers may be made only by the Board or a designated Board committee and will be promptly disclosed as required by law or stock exchange regulation.

It is the Company's intention that this Code of Ethics be its written code of ethics under Section 406 of the Sarbanes-Oxley Act of 2002 complying with the standards set forth in Securities and Exchange Commission Regulation S-B Item 406.

**Consent of Independent Certified Public Accountants**

We have issued our report dated February 13, 2004, accompanying the financial statements included in the Annual Report of LION, Inc. on Form 10-KSB for the year ended December 31, 2003. We hereby consent to the incorporation by reference of said report in the Registration Statement of LION, Inc. on Form S-8 (File No. 333-107402).

/s/ Grant Thornton LLP  
Portland, Oregon  
March 30, 2004

**CERTIFICATION**

I, Randall D. Miles, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 registrant 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, is made known to us by others within the organization, particularly during the period in which this report is being prepared;
  - b. evaluated the effectiveness of the small business owner'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 owner's internal control over financial reporting that occurred during the small business owner's most recent fiscal quarter (the small business owner'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 owner's internal control over financial reporting; and
5. The small business owner's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business owner's auditors and the audit committee of small business owners 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 owner'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 owner's internal control over financial reporting.

Date: March 30, 2004

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

**CERTIFICATION**

I, Steve Thomson, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 registrant 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, is made known to us by others within the organization, particularly during the period in which this report is being prepared;
  - b. evaluated the effectiveness of the small business owner'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 owner's internal control over financial reporting that occurred during the small business owner's most recent fiscal quarter (the small business owner'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 owner's internal control over financial reporting; and
5. The small business owner's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business owner's auditors and the audit committee of small business owners 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 owner'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 owner's internal control over financial reporting.

Date: March 30, 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 Annual Report of LION, Inc., a Washington corporation (the “Company”), on Form 10-KSB for the fiscal year ended December 31, 2003 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 Sarbaines-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

March 30, 2004

March 30, 2004