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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 44865

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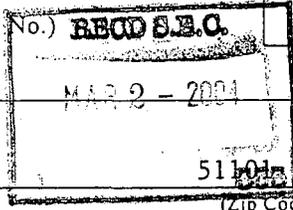
**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Warner Group, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
505 Fifth Street, Suite 100
(No. and Street)
Sioux City IA
(City) (State)
51101
(Zip Code)



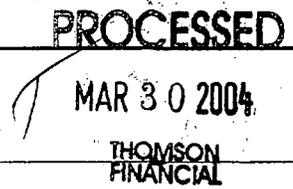
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FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
R. Dean Phillips (712) 255-5700
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

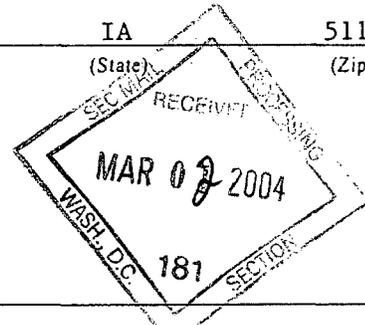
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Henjes, Conner, Williams & Grimsley, LLP
(Name - if individual, state last, first, middle name)
P. O. Box 1528 Sioux City IA 51102
(Address) (City) (State) (Zip Code)



CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.



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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

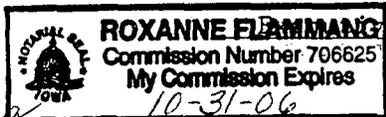
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OATH OR AFFIRMATION

I, R. Dean Phillips, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Warner Group, Inc., as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

N/A

R. Dean Phillips
Signature



Vice President
Title

Roxanne L. Flammang
Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

WARNER GROUP, INC.

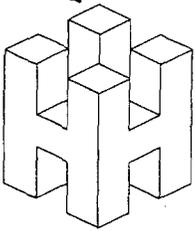
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2003 AND 2002

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* * * * *



HENJES, CONNER,
WILLIAMS & GRIMSLEY, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

800 FRANCES BUILDING
505 FIFTH STREET
P.O. BOX 1528
SIOUX CITY, IOWA 51102

PH. (712) 277-3931
(800) 274-3931
FAX (712) 233-3431

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Warner Group, Inc.
Sioux City, Iowa

We have audited the accompanying statements of financial condition of WARNER GROUP, INC. (a wholly-owned subsidiary of WGHC, Inc.), as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 the Warner Group, Inc., as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.16 of the Commodity Futures Trading Commission. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Henzes, Conner,
Williams + Grimsley, LLP*
Certified Public Accountants

Sioux City, Iowa
January 16, 2004

WARNER GROUP, INC.

STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2003 AND 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Cash and Cash Equivalents	\$ 327,573	\$ 173,063
Securities Owned - Note 6	233,259	353,949
Commissions Receivable	246,833	167,219
Income Taxes Receivable	-	33,565
Other Receivables	25,855	31,261
Clearing Deposits	40,000	40,000
Prepaid Expenses	83,357	69,881
Employee Receivables - Note 7	268	2,300
Deferred Tax Asset - Note 4	41	-
Broker License	<u>20,000</u>	<u>20,000</u>
Total Assets	\$ <u>977,186</u>	\$ <u>891,238</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Accounts Payable	\$ 92,976	\$ 53,869
Customer Deposits	3,299	975
Due to WGHC, Inc. - Note 8	-	38,760
Commissions and Bonuses Payable	175,019	141,192
Payroll Taxes Payable	57,562	54,947
Income Taxes Payable	13,842	-
Deferred Income Taxes Payable - Note 4	<u>-</u>	<u>244</u>
Total Liabilities	\$ 342,698	\$ 289,987

STOCKHOLDERS' EQUITY

Common Stock (\$.10 Par, 100,000 Shares Authorized, 27,085 Shares Issued and Outstanding)	\$ 2,709	\$ 2,709
Additional Paid-In Capital	6,662	6,662
Retained Earnings	<u>625,117</u>	<u>591,880</u>
Total Stockholders' Equity	\$ <u>634,488</u>	\$ <u>601,251</u>
Total Liabilities and Stockholders' Equity	\$ <u>977,186</u>	\$ <u>891,238</u>

The Accompanying Notes Are an Integral Part
of These Financial Statements

WARNER GROUP, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003		2002	
	<u>Amount</u>	<u>% to Sales</u>	<u>Amount</u>	<u>% to Sales</u>
<u>REVENUE</u>				
Commissions	\$ 3,189,343	90.4	\$ 3,082,502	89.7 %
Interest and Other Income .	<u>339,815</u>	<u>9.6</u>	<u>354,632</u>	<u>10.3</u>
Total Revenues	\$ 3,529,158	100.0 %	\$ 3,437,134	100.0 %
<u>PRODUCTION EXPENSES</u>				
Commissions and Broker Expenses	\$ 1,767,570	50.1 %	\$ 1,710,947	49.8 %
Clearing Expenses	323,739	9.2	349,525	10.2
Payroll Taxes and Employee Benefits	<u>204,996</u>	<u>5.8</u>	<u>148,504</u>	<u>4.3</u>
Total Production Expenses	\$ 2,296,305	65.1 %	\$ 2,208,976	64.3 %
Gross Profit	\$ 1,232,853	34.9 %	\$ 1,228,158	35.7 %
<u>GENERAL AND ADMINISTRATIVE EXPENSES</u>				
Office Salaries	\$ 427,895	12.1 %	\$ 423,908	12.3 %
Market Quotation Service .	94,161	2.7	105,629	3.1
Dues and Subscriptions ..	18,056	.5	19,925	.6
Insurance	24,693	.7	22,229	.6
Entertainment and Travel .	22,732	.6	21,739	.6
Advertising	41,421	1.2	44,882	1.4
Office Expense	33,234	1.0	37,834	1.1
Postage	24,809	.7	27,681	.8
Telephone	45,699	1.3	55,497	1.6
Rent and Equipment Leases .	208,336	5.9	192,714	5.6
Depreciation	-	-	15,854	.5
Training	8,356	.2	13,521	.4
Payroll Taxes and Employee Benefits	139,188	4.0	146,029	4.2
Registration Fees	34,377	1.0	31,690	.9
Consultant Fees	1,737	-	3,847	.1
Professional Services ...	24,308	.7	33,942	1.0
Utilities	6,821	.2	6,542	.2
Cleaning, Repairs and Maintenance	29,564	.8	34,491	1.0
Interest Expense	<u>198</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	\$ 1,185,585	33.6 %	\$ 1,237,954	36.0 %
Operating Income (Loss)	\$ 47,268	1.3 %	\$(9,796)	(.3) %
Income Taxes - Note 4 ...	<u>14,031</u>	<u>(.3)</u>	<u>1,644</u>	<u>-</u>
Net Income (Loss) ..	\$ <u>33,237</u>	<u>1.0 %</u>	\$(<u>11,440</u>)	<u>(.3) %</u>

The Accompanying Notes are an Integral Part
of These Financial Statements

WARNER GROUP, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>
Balances at December 31, 2001	\$ 2,961	\$ 91,502	\$ 894,288
Retirement of 8,225 Shares of Common Stock at \$33.70 Per Share	(822)	(276,360)	-
Sale of 5,700 Shares of Common Stock at \$33.70 Per Share	570	191,520	-
Dividends Paid	-	-	(290,968)
Net (Loss) for 2002	<u>-</u>	<u>-</u>	<u>(11,440)</u>
Balances at December 31, 2002	\$ 2,709	\$ 6,662	\$ 591,880
Net Income for 2003	<u> </u>	<u> </u>	<u>33,237</u>
Balances at December 31, 2003	\$ <u>2,709</u>	\$ <u>6,662</u>	\$ <u>625,117</u>

The Accompanying Notes are an Integral Part
of These Financial Statements

WARNER GROUP, INC.

STATEMENTS OF CHANGES IN LIABILITIES
SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Subordinated Liabilities at December 31, 2001	.....	-
Subordinated Liabilities Incurred During the Year Ended December 31, 2002	.....	<u>-</u>
Subordinated Liabilities at December 31, 2002	.....	-
Subordinated Liabilities Incurred During the Year Ended December 31, 2003	.....	<u>-</u>
Subordinated Liabilities at December 31, 2003	.....	<u>-</u>

The Accompanying Notes are an Integral Part
of These Financial Statements

WARNER GROUP, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2003</u>	<u>2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received for Commissions	\$ 3,109,729	\$ 3,143,759
Cash Received for Other Income	458,451	12,957
Cash Paid to Suppliers and Employees	(3,453,953)	(3,436,536)
Cash Received for Income Taxes	33,241	-
Cash Paid for Income Taxes	(150)	(86,651)
Cash Received for Interest Income	<u>7,192</u>	<u>11,837</u>
Net Cash Provided (Used) by Operating Activities	\$ 154,510	\$(354,634)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payment for Purchase of Equipment	<u>-</u>	\$(<u>10,036</u>)
Net Cash (Used) by Investing Activities	-	\$(10,036)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Stock Sold	-	\$ 192,090
Payment for Purchase of Common Stock	-	(277,183)
Payment of Dividends	<u>-</u>	(<u>25,000</u>)
Net Cash (Used) by Financing Activities	<u>-</u>	\$(<u>110,093</u>)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 154,510	\$(474,763)
Cash and Cash Equivalents at Beginning of Year .	\$ <u>173,063</u>	<u>647,826</u>
Cash and Cash Equivalents at End of Year	\$ <u>327,573</u>	\$ <u>173,063</u>
<u>SIGNIFICANT NONCASH FINANCING ACTIVITIES</u>		
Dividend Paid with Investments	<u>-</u>	\$ <u>150,500</u>
Dividend Paid with Equipment	<u>-</u>	\$ <u>115,468</u>

The Accompanying Notes are an Integral Part
of These Financial Statements

WARNER GROUP, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF NET INCOME TO NET		
<u>CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Net Income	\$ 33,237	\$(11,440)
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation	-	\$ 15,854
Loss on Uncollectible Notes Receivable ..	-	23,465
(Increase) Decrease in Securities Owned ..	\$ 120,690	(349,461)
(Increase) Decrease in Commissions		
Receivable	(79,614)	61,257
(Increase) Decrease in Income Taxes		
Receivable	33,565	(33,565)
Decrease in Other Receivables	5,138	19,623
(Increase) Decrease in Prepaid Expenses ..	(13,476)	6,668
Decrease in Employee Receivables	2,300	3,933
(Increase) in Deferred Tax Asset	(41)	-
Increase (Decrease) in Accounts Payable .	39,107	(26,247)
Increase in Customer Deposits	2,324	975
Increase (Decrease) in Due to WGHC, Inc. ..	(38,760)	38,760
Increase (Decrease) in Commissions and		
Bonuses Payable	33,827	(37,656)
Increase (Decrease) in Payroll Taxes		
Payable	2,615	(15,358)
Increase (Decrease) in Income Taxes		
Payable	13,842	(29,137)
(Decrease) in Deferred Taxes Payable	(244)	(22,305)
 Total Adjustments	 \$ <u>121,273</u>	 \$(<u>343,194</u>)
 Net Cash Provided by Operating		
Activities	 \$ <u>154,510</u>	 \$(<u>354,634</u>)

The Accompanying Notes are an Integral Part
of These Financial Statements

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Warner Group, Inc., a wholly-owned subsidiary of WGHC, Inc., is a broker/dealer authorized to do business in several states but primarily does business in Nebraska, Iowa and South Dakota. The Company began doing business on May 8, 1992, and is the continuation of a business that was acquired and operated under the same name. Currently, offices are located in Sioux City, Waterloo and Waverly, Iowa, and Lincoln and Omaha, Nebraska.

Depreciation was provided on a straight-line basis over the estimated lives of the equipment. Depreciation expense for 2002 was \$15,854. The Company transferred its equipment as a dividend to its parent company in 2002.

Cash equivalents consist of highly liquid investments with a maturity of three months or less when purchased.

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

No allowance for doubtful accounts is provided. Management considers all receivables to be collectible.

Note 2 - LEASES

The Company leases its office space for \$13,122 per month with minimum future payments as follows:

December, 2004	.....	\$ 148,044
December, 2005	.....	\$ 127,804
December, 2006	.....	\$ 36,732
December, 2007	.....	\$ 30,610

The leases are for several different locations and expire at different times. Rent expense was \$147,528 and \$148,947 at December 31, 2003 and 2002, respectively.

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

Note 2 - LEASES

(Cont.) The Company also leases various equipment on a month-to-month basis. Lease expense for the years ended December 31, 2003 and 2002, was \$60,809 and \$43,767, respectively. A portion of the equipment leases were with the Company's parent company. See Note 8.

Note 3 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). The Company is also subject to the Commodity Futures Trading Commission's (CFTC's) minimum financial requirements (Regulation 1.17), which require that the Company maintain net capital, as defined, equal to four percent of customer funds required to be segregated pursuant to the Commodity Exchange Act, less the market value of certain commodity options, all as defined. At December 31, 2003, the Company had net capital of \$484,842, which was \$234,842 in excess of its required net capital. The Company's net capital ratio was 0.71 to 1. At December 31, 2002, the Company had net capital of \$431,797, which was \$181,797 in excess of its required net capital. The Company's net capital ratio was 0.67 to 1.

Note 4 - INCOME TAXES

The Company files a consolidated income tax return with its parent company, WGHC, Inc. Warner Group, Inc.'s income tax provision consists of the following:

	<u>2003</u>	<u>2002</u>
Federal	\$ 10,424	\$ 485
State	3,893	-
Deferred	(286)	1,159
	<u>\$ 14,031</u>	<u>\$ 1,644</u>

Deferred taxes are created by using accelerated methods of depreciation and Section 179 deductions for tax calculations and by recording marketable investments at market.

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

Note 5 - RETIREMENT PLAN

The Company has a 401(K) retirement plan that includes a discretionary or matching contribution by the Company. The Company's contribution was \$60,000 and \$55,000 for the years ended December 31, 2003 and 2002, respectively.

Note 6 - SECURITIES OWNED

At December 31, 2003 and 2002, securities consisted of the following:

	2003		2002	
	Cost	Market Value	Cost	Market Value
Corporate Debt Obligations	\$ 230,084	\$ 229,959	\$ 149,909	\$ 150,000
Corporate Stock	3,300	3,300	3,300	3,300
Certificate of Deposit	-	-	50,000	50,000
US Treasury Bills	-	-	150,000	150,649
	<u>\$ 233,384</u>	<u>\$ 233,259</u>	<u>\$ 353,209</u>	<u>\$ 353,949</u>

Securities are recorded at their current market value and are recorded as trading securities, which are securities that are bought and sold in the normal course of business.

Note 7 - EMPLOYEE RECEIVABLES

Employee receivables consist of the following at December 31, 2003 and 2002:

	2003	2002
Advances	\$ <u>268</u>	\$ <u>2,300</u>

Note 8 - RELATED-PARTY TRANSACTIONS

The Company is leasing equipment from its parent company in transactions that are considered operating leases. Total lease expense to WGHC, Inc. for the years ended December 31, 2003 and 2002, was \$41,187 and \$26,847, respectively.

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

Note 8 - RELATED-PARTY TRANSACTIONS

(Cont.)

The Company is also offering payroll deduction to its employees who wish to purchase parent company stock. Amounts due to WGHC, Inc. at December 31, 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Accrued Lease Expense	-	\$ 26,847
Payroll Deductions - WGHC, Inc. Stock .	<u>-</u>	<u>11,913</u>
	<u>-</u>	\$ <u>38,760</u>

Note 9 - OFF-BALANCE SHEET RISK

On December 31, 2003 and 2002, and at times during the years, the Company had total cash balances greater than \$100,000 per bank. The banks have FDIC insurance that insures depositors' accounts up to \$100,000. The Company has exposure on any amount that exceeds \$100,000, should that financial institution fail.

WARNER GROUP, INC.
COMPUTATION OF NET CAPITAL
AS OF DECEMBER 31, 2003 AND 2002

SCHEDULE I

	<u>2003</u>	<u>2002</u>
<u>NET CAPITAL</u>		
Total Stockholders' Equity	\$ 634,488	\$ 601,251
Deduct Stockholders' Equity Not Allowable for Net Capital	-	-
Total Stockholders' Equity Qualified for Net Capital	\$ 634,488	\$ 601,251
Add:		
A. Allowable Subordinated Borrowings	-	-
B. Other Allowable Credits - Deferred Income Taxes Payable	-	-
Total Capital and Allowable Subordinated Borrowings	\$ 634,488	\$ 601,251
Deductions and/or Charges:		
A. Non-Allowable Assets		
Prepaid Expenses	\$ 83,357	\$ 69,881
Deferred Tax Asset	41	-
Broker License	20,000	20,000
Income Taxes Receivable	-	33,565
Miscellaneous Receivables	26,123	33,561
Securities Not Readily Marketable	<u>3,300</u>	<u>3,300</u>
	\$ <u>132,821</u>	\$ <u>160,307</u>
Net Capital Before Haircuts on Securities Positions	\$ 501,667	\$ 440,944
Haircuts on Securities (Computed Pursuant to Rule 15c3-1(f))	<u>16,825</u>	<u>9,147</u>
Net Capital	\$ <u>484,842</u>	\$ <u>431,797</u>
<u>AGGREGATE INDEBTEDNESS</u>		
Commissions and Bonuses Payable	\$ 175,019	\$ 141,192
Customer Deposits	3,299	975
Payroll Taxes Payable	57,562	54,947
Income Taxes Payable	13,842	-
Deferred Taxes Payable	-	244
Other Accounts Payable and Accrued Expenses .	<u>92,976</u>	<u>92,629</u>
Total Aggregate Indebtedness	\$ <u>342,698</u>	\$ <u>289,987</u>
<u>COMPUTATION OF NET CAPITAL</u>		
Minimum Net Capital Required	\$ <u>250,000</u>	\$ <u>250,000</u>
Excess Net Capital at 1,500 Percent	\$ <u>234,842</u>	\$ <u>181,797</u>
Excess Net Capital at 1,000 Percent	\$ <u>450,572</u>	\$ <u>402,798</u>
(Net Capital - 10% of Aggregate Indebtedness)		
Ratio: Aggregate Indebtedness to Net Capital .	<u>0.71 to 1</u>	<u>0.67 to 1</u>

The above calculations are based on Rule 15c3-1 of the Securities Exchange Act of 1934 and Regulation 1.17 of the Commodities Exchange Act. There is no material difference from this schedule and the Company's computation, included in Part II of Form X-17A-5, as of December 31, 2003.

COMPUTATION OF RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3

DECEMBER 31, 2003 AND 2002

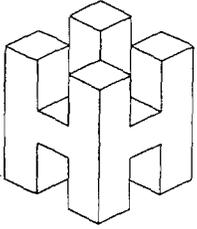
There are no reserve requirements pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 because the Company is exempt under Rule 15c3-3(k)(2)(ii). The Company operates as an introducing broker, clears all transactions with and for customers on a fully disclosed basis with a clearing broker, and promptly transmits all customer funds and securities to the clearing broker. The clearing broker carries all of the accounts of such customers and maintains and preserves such books and records pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities Exchange Act of 1934.

INFORMATION RELATING TO POSSESSION OR
CONTROL REQUIREMENTS UNDER RULE 15c3-3

The Company is exempt from the possession and control requirements under Rule 15c3-3(k)(2)(ii) of the Securities Exchange Act of 1934.

SCHEDULE OF SEGREGATION REQUIREMENTS AND
FUNDS IN SEGREGATION UNDER REGULATION 1.16

The Company is exempt from the segregation requirements of Regulation 1.16 of the Commodity Exchange Act because it is an introducing broker.



HENJES, CONNER,
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
STRUCTURE REQUIRED BY SEC RULE 17a-5 AND REGULATION
1.16 OF THE COMMODITY FUTURES TRADING COMMISSION

Board of Directors
Warner Group, Inc.
Sioux City, Iowa

In planning and performing our audit of the financial statements of the WARNER GROUP, INC., for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission and Regulation 1.16 of the Commodity Futures Trading Commission, we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11), the periodic computations of minimum financial requirements pursuant to Regulation 1.17 of the Commodity Futures trading Commission, and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

Because the Company is an independent broker and not subject to such requirements, we also did not review the practices and procedures followed by the Company in making either of the following:

1. The daily computations of the segregation requirements of Section 4d(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations.
2. The daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the Commodity Futures trading Commission.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commissions' above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) of the Securities and Exchange Commission and Regulation 1.16 of the Commodity Futures Trading Commission list additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of the inherent limitations in internal control of a company of this size, a full system of controls is impracticable. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commissions to be adequate for their purposes in accordance with the Securities Exchange Act of 1934, the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003, to meet the Commissions' objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and Regulation 1.16 of the Commodity Exchange Act in their regulation of registered brokers and dealers, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Henzler, Conner,
Williams & Grimsley, LLP*
Certified Public Accountants

Sioux City, Iowa
January 16, 2004