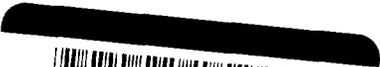


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**ANNUAL AUDITED REPORT  
 FORM X-17A-5  
 PART III**

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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 01/01/04 AND ENDING 12/31/04  
 MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **WARNER GROUP, INC.**

OFFICIAL USE ONLY  
 FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**505 FIFTH STREET, SUITE 100**

**SIoux CITY**

(No. and Street)  
**IA**

**51101**

(City)

(State)

(Zip Code)

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, P.C.**

(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.

PROCESSED

MAR 11 2005

THOMSON  
FINANCIAL

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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)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

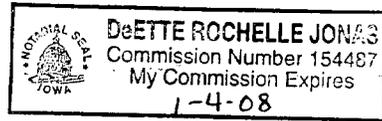
I, R. DEAN PHILLIPS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of WARNER GROUP, INC., as of DECEMBER 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, 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

EXECUTIVE VICE PRESIDENT  
Title

DeEtte R. Jonas  
Notary Public



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

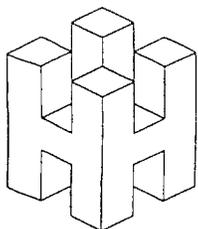
- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims 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).

C O N T E N T S

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Statements of Income .....	4
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Statements of Changes in Liabilities Subordinated to Claims of General Creditors .....	6
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\* \* \* \* \*



HENJES, CONNER &  
WILLIAMS, P.C.

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, 2004 and 2003, 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, 2004 and 2003, 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.

In accordance with industry standards, we have also issued our report dated January 16, 2004, on our consideration of Warner Group's internal control structure. This report is an integral part of an audit performed in accordance with industry standards and should be read in conjunction with this report in considering the results of our audits.

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.

*Henzler, Corner & Williams, PC*  
Certified Public Accountants

Sioux City, Iowa  
January 16, 2004

WARNER GROUP, INC.

STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents .....	\$ 868,177	\$ 327,573
Securities Owned - Note 6 .....	3,300	233,259
Commissions Receivable .....	245,020	246,833
Other Receivables .....	35,245	25,855
Clearing Deposits .....	40,000	40,000
Prepaid Expenses .....	94,087	83,357
Employee Receivables - Note 7 .....	3,559	268
Deferred Tax Asset .....	-	41
Broker License .....	<u>20,000</u>	<u>20,000</u>
 Total Assets .....	 \$ <u>1,309,388</u>	 \$ <u>977,186</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Accounts Payable .....	\$ 185,635	\$ 92,976
Customer Deposits .....	2,928	3,299
Due to WGHC, Inc. - Note 8 .....	24,571	-
Commissions and Bonuses Payable .....	350,616	175,019
Payroll Taxes Payable .....	69,199	57,562
Income Taxes Payable .....	<u>1,492</u>	<u>13,842</u>
 Total Liabilities .....	 \$ 634,441	 \$ 342,698

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>665,576</u>	<u>625,117</u>
 Total Stockholders' Equity .....	 \$ <u>674,947</u>	 \$ <u>634,488</u>
 Total Liabilities and Stockholders' Equity .....	 \$ <u>1,309,388</u>	 \$ <u>977,186</u>

The Accompanying Notes Are an Integral Part  
of These Financial Statements

WARNER GROUP, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004		2003	
	Amount	% to Sales	Amount	% to Sales
<u>REVENUE</u>				
Commissions .....	\$ 3,725,913	91.3 %	\$ 3,189,343	90.4 %
Interest and Other Income ..	<u>355,057</u>	<u>8.7</u>	<u>339,815</u>	<u>9.6</u>
Total Revenues .....	\$ 4,080,970	100.0 %	\$ 3,529,158	100.0 %
<u>PRODUCTION EXPENSES</u>				
Commissions and Broker Expenses .....	\$ 2,035,420	49.9 %	\$ 1,767,570	50.1 %
Clearing Expenses .....	282,139	6.9	323,739	9.2
Payroll Taxes and Employee Benefits .....	<u>378,078</u>	<u>9.3</u>	<u>204,996</u>	<u>5.8</u>
Total Production Expenses .....	\$ <u>2,695,637</u>	<u>66.1 %</u>	\$ <u>2,296,305</u>	<u>65.1 %</u>
Gross Profit .....	\$ 1,385,333	33.9 %	\$ 1,232,853	34.9 %
<u>GENERAL AND ADMINISTRATIVE EXPENSES</u>				
Office Salaries .....	\$ 434,943	10.6 %	\$ 427,895	12.1 %
Market Quotation Service ..	89,725	2.2	94,161	2.7
Dues and Subscriptions ..	18,075	.5	18,056	.5
Insurance .....	21,449	.5	24,693	.7
Entertainment and Travel ..	16,723	.4	22,732	.6
Advertising .....	48,712	1.2	41,421	1.2
Office Expense .....	41,053	1.0	33,234	1.0
Postage .....	26,158	.6	24,809	.7
Telephone .....	49,312	1.2	45,699	1.3
Rent and Equipment Leases ..	217,476	5.3	208,336	5.9
Training .....	6,893	.2	8,356	.2
Payroll Taxes and Employee Benefits .....	141,629	3.5	139,188	4.0
Registration Fees .....	41,060	1.0	34,377	1.0
Consultant Fees .....	1,210	-	1,737	-
Professional Services ...	141,458	3.5	24,308	.7
Utilities .....	7,249	.2	6,821	.2
Cleaning, Repairs and Maintenance .....	33,531	.8	29,564	.8
Interest Expense .....	<u>-</u>	<u>-</u>	<u>198</u>	<u>-</u>
Total Expenses .....	\$ <u>1,336,656</u>	<u>32.7 %</u>	\$ <u>1,185,585</u>	<u>33.6 %</u>
Operating Income ...	\$ 48,677	1.2 %	\$ 47,268	1.3 %
Income Taxes - Note 4 ...	<u>8,218</u>	(.2)	<u>14,031</u>	(.3)
Net Income .....	\$ <u>40,459</u>	<u>1.0 %</u>	\$ <u>33,237</u>	<u>1.0 %</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, 2004 AND 2003

	<u>Common</u> <u>Stock</u>	<u>Additional</u> <u>Paid-In</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u>
Balances at December 31, 2002 .....	\$ 2,709	\$ 6,662	\$ 591,880
Net Income for 2003 .....	_____	_____	<u>33,237</u>
Balances at December 31, 2003 .....	\$ 2,709	\$ 6,662	\$ 625,117
Net Income for 2004 .....	_____	_____	<u>40,459</u>
Balances at December 31, 2004 .....	\$ <u>2,709</u>	\$ <u>6,662</u>	\$ <u>665,576</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, 2004 AND 2003

Subordinated Liabilities at December 31, 2002 .....	-
Subordinated Liabilities Incurred During the Year Ended December 31, 2003 .....	<u>-</u>
Subordinated Liabilities at December 31, 2003 .....	-
Subordinated Liabilities Incurred During the Year Ended December 31, 2004 .....	<u>-</u>
Subordinated Liabilities at December 31, 2004 .....	<u><u>-</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, 2004 AND 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2004</u>	<u>2003</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received for Commissions .....	\$ 3,727,726	\$ 3,109,729
Cash Received for Other Income .....	567,440	458,451
Cash Paid to Suppliers and Employees .....	(3,742,221)	(3,453,953)
Cash Received for Income Taxes .....	-	33,241
Cash Paid for Income Taxes .....	( 20,527)	( 150)
Cash Received for Interest Income .....	<u>8,186</u>	<u>7,192</u>
Net Cash Provided by Operating Activities .....	\$ <u>540,604</u>	\$ <u>154,510</u>
Net Increase in Cash and Cash Equivalents .....	\$ 540,604	\$ 154,510
Cash and Cash Equivalents at Beginning of Year .	<u>327,573</u>	<u>173,063</u>
Cash and Cash Equivalents at End of Year .....	\$ <u><u>868,177</u></u>	\$ <u><u>327,573</u></u>
<u>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Net Income .....	\$ 40,459	\$ 33,237
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Decrease in Securities Owned .....	\$ 229,959	\$ 120,690
(Increase) Decrease in Commissions Receivable .....	1,813	( 79,614)
Decrease in Income Taxes Receivable ....	-	33,565
(Increase) Decrease in Other Receivables	( 9,390)	5,138
(Increase) in Prepaid Expenses .....	( 10,730)	( 13,476)
(Increase) Decrease in Employee Receivables .....	( 3,291)	2,300
(Increase) Decrease in Deferred Tax Asset .	41	( 41)
Increase in Accounts Payable .....	92,659	39,107
Increase (Decrease) in Customer Deposits	( 371)	2,324
Increase (Decrease) in Due to WGHC, Inc. .	24,571	( 38,760)
Increase in Commissions and Bonuses Payable .....	175,597	33,827
Increase in Payroll Taxes Payable .....	11,637	2,615
Increase (Decrease) in Income Taxes Payable .....	( 12,350)	13,842
(Decrease) in Deferred Taxes Payable ...	<u>-</u>	<u>( 244)</u>
Total Adjustments .....	\$ <u>500,145</u>	\$ <u>( 121,273)</u>
Net Cash Provided by Operating Activities .....	\$ <u><u>540,604</u></u>	\$ <u><u>154,510</u></u>

The Accompanying Notes are an Integral Part  
of These Financial Statements

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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.

For purposes of the statement of cash flows, 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 \$13,475 per month with minimum future payments as follows:

December, 2005	.....	\$ 141,521
December, 2006	.....	\$ 40,161
December, 2007	.....	\$ 30,610

The leases are for several different locations and expire at different times. Rent expense was \$149,994 and \$147,528 at December 31, 2004 and 2003, respectively.

The Company also leases various equipment on a month-to-month basis. Lease expense for the years ended December 31, 2004 and 2003, was \$67,483 and \$60,809, respectively. A portion of the equipment leases were with the Company's parent company. See Note 8.

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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, 2004, the Company had net capital of \$510,791, which was \$260,791 in excess of its required net capital. The Company's net capital ratio was 1.24 to 1. 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.

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>2004</u>	<u>2003</u>
Federal .....	\$ 4,182	\$ 10,424
State .....	4,036	3,893
Deferred .....	-	( 286)
	<u>\$ 8,218</u>	<u>\$ 14,031</u>

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 \$191,000 and \$60,000 for the years ended December 31, 2004 and 2003, respectively.

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Note 6 - SECURITIES OWNED

At December 31, 2004 and 2003, securities consisted of the following:

	2004		2003	
	Cost	Market Value	Cost	Market Value
Corporate Debt Obligations .....	\$ -	\$ -	\$ 230,084	\$ 229,959
Corporate Stock ....	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>
	<u>\$ 3,300</u>	<u>\$ 3,300</u>	<u>\$ 233,384</u>	<u>\$ 233,259</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, 2004 and 2003:

	2004	2003
Advances .....	<u>\$ 3,559</u>	<u>\$ 268</u>

Note 8 - RELATED-PARTY TRANSACTIONS

The Company is leasing equipment from its parent company in transactions that are considered operating leases. Future minimum lease payments are as follows:

December, 2005 .....	\$ 42,913
December, 2006 .....	\$ 17,472
December, 2007 .....	\$ 6,209

Total lease expense to WGHC, Inc. for the years ended December 31, 2004 and 2003, was \$44,854 and \$41,187, respectively.

WARNER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

Note 8 - RELATED-PARTY TRANSACTIONS

(Cont.) At December 31, 2004, the Company owed WGHC, Inc. \$24,571, which consisted of the following:

Accrued Expenses .....	\$ 24,631
Advance to Employee .....	6,361
WGHC, Inc. Expenses Paid by Warner Group .....	( 6,421)
	\$ <u>24,571</u>

Note 9 - OFF-BALANCE SHEET RISK

At December 31, 2004 and 2003, 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.

Note 10 - CONTINGENCY

The Company is currently involved in a legal matter that is scheduled for arbitration in May, 2005. The effect, if any, on the Company's financial position cannot be determined at this time.

## COMPUTATION OF NET CAPITAL

AS OF DECEMBER 31, 2004 AND 2003

	2004	2003
<u>NET CAPITAL</u>		
Total Stockholders' Equity .....	\$ 674,947	\$ 634,488
Deduct Stockholders' Equity Not Allowable for Net Capital .....	-	-
Total Stockholders' Equity Qualified for Net Capital .....	\$ 674,947	634,488
Add:		
A. Allowable Subordinated Borrowings .....	-	-
Total Capital and Allowable Subordinated Borrowings .....	\$ 674,947	\$ 634,488
Deductions and/or Charges:		
A. Non-Allowable Assets		
Prepaid Expenses .....	\$ 94,087	\$ 83,357
Deferred Tax Asset .....	-	41
Broker License .....	20,000	20,000
Miscellaneous Receivables .....	38,804	26,123
Securities Not Readily Marketable .....	3,300	3,300
	\$ 156,191	\$ 132,821
Net Capital Before Haircuts on Securities Positions .....	\$ 518,756	\$ 501,667
Haircuts on Securities (Computed Pursuant to Rule 15c3-1(f)) .....	7,965	16,825
Net Capital .....	\$ 510,791	\$ 484,842
<u>AGGREGATE INDEBTEDNESS</u>		
Commissions and Bonuses Payable .....	\$ 350,616	\$ 175,019
Customer Deposits .....	2,928	3,299
Payroll Taxes Payable .....	69,199	57,562
Income Taxes Payable .....	1,492	13,842
Other Accounts Payable and Accrued Expenses .....	210,206	92,976
Total Aggregate Indebtedness .....	\$ 634,441	\$ 342,698
<u>COMPUTATION OF NET CAPITAL</u>		
Minimum Net Capital Required .....	\$ 250,000	\$ 250,000
Excess Net Capital at 1,500 Percent .....	\$ 260,791	\$ 234,842
Excess Net Capital at 1,000 Percent .....	\$ 447,347	\$ 450,572
(Net Capital - 10% of Aggregate Indebtedness)		
Ratio: Aggregate Indebtedness to Net Capital .....	1.24 to 1	0.71 to 1

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, 2004.

COMPUTATION OF RESERVE REQUIREMENTS  
PURSUANT TO RULE 15c3-3

DECEMBER 31, 2004 AND 2003

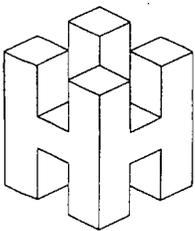
There are no reserve requirements pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 because the Company is exempt under Rule 15c3-3(k)(2)(ii). The Company operates as an introducing broker, clears all transactions with and for customers on a fully disclosed basis with a clearing broker, 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 &  
WILLIAMS, P.C.

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 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, 2004, 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.

*Henjes, Conner & Williams, PC*  
Certified Public Accountants

Sioux City, Iowa  
January 16, 2004