

RENN Fund, Inc.
Form N-CSRS
September 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT

OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act File Number 811-22299

RENN Fund, Inc.

(Exact name of Registrant as specified in charter)

8080 N. Central Expressway, Suite 210/LB 59

Dallas, Texas 75206

(Address of principal executive offices)

214-891-8294

(Registrant's telephone number, including area code)

Russell Cleveland

President and CEO

RENN Capital Group, Inc.

Suite 162

11520 North Central Expressway

Dallas, Texas 75243

(Name and address of agent for service of process)

214-891-8294

(Agent's telephone number, including area code)

Date of fiscal year end: December 31

June 30, 2016

(Date of reporting period)

Item 1. Semi-Annual Report to Shareholders

SEMI-ANNUAL REPORT TO SHAREHOLDERS

OF

RENN FUND, INC.

June 30, 2016

Dear Shareholders,

At our Annual Meeting held on August 4, 2016, the shareholders voted favorably to liquidate the Fund, and elected two Directors, Russell Cleveland and Ernest Hill to serve until the Fund is liquidated.

The Board of Directors is considering other alternatives, including a new experienced management company that could enhance the value of the Fund by charging lower fees, adding new capital and using the tax loss carry forward. Any change other than distributing cash and shares will have to be voted on by the shareholders.

Meanwhile, the value of the Fund has been increasing. Over the past several weeks Bovie Medical has more than doubled in value. Your Fund owns 700,000 shares of Bovie. Net asset value per share rose from \$1.17 on July 29th to \$1.59 on August 24th, a gain of 36%.

We will keep you informed.

Sincerely,

Russell Cleveland

President and CEO

SEMI-ANNUAL REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

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RENN Fund, Inc.

Schedule of Investments

June 30, 2016 (unaudited)

Allocation of Assets by Industry (% of Fund's Net Assets)

Industry	%
Crude Petroleum & Natural Gas	0.1 %
Nutraceuticals	5.5 %
Telecommunications	8.0 %
Communication Services	14.9 %
Surgical & Medical Instruments & Apparatus	22.9 %
Other Assets and liabilities	48.6 %
	100.0 %

Allocation of Assets by Country (% of Fund's Net Assets)

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Schedule of Investments

June 30, 2016 (unaudited)

Item 1. SCHEDULE OF INVESTMENTS

Unaffiliated Investments

Shares or Principal <u>Amount</u>	<u>Company</u>	Cost	Value ⁽⁶⁾
	CONVERTIBLE BONDS – 0.04%⁽³⁾⁽⁴⁾⁽⁷⁾		
	Crude Petroleum & Natural Gas – 0.04%		
\$1,000,000	PetroHunter Energy Corporation 8.5% Maturity December 31, 2014	\$1,000,000	\$2,000
	Total Unaffiliated Convertible Bonds	<u>1,000,000</u>	2,000
	COMMON EQUITIES – 36.44%⁽³⁾⁽⁴⁾		
	Telecommunications – 8.01%		
1,500,000	APVIO Sys Inc	\$482,799	420,000
	Crude Petroleum & Natural Gas – 0.01%		
808,445	PetroHunter Energy Corporation	101,056	160
	Medical Chemicals and Botanical products – 5.45%		
193,070	FitLife Brands, Inc	9,131,687	285,744
	Surgical & Medical Instruments & Apparatus – 22.97%		
700,000	Bovie Medical Corporation	1,610,358	1,204,000
	Total Unaffiliated Common Equities	11,325,900	1,909,904
	TOTAL UNAFFILIATED INVESTMENTS	\$12,325,900	\$1,911,904
	Aggregate Gross Unrealized Appreciation of all Unaffiliated Securities		\$0
	Aggregate Gross Unrealized Depreciation of all Unaffiliated Securities		\$(10,413,996)
	Net Unrealized Appreciation/Depreciation of all Unaffiliated Securities		\$(10,413,996)

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Schedule of Investments

June 30, 2016 (unaudited)

SCHEDULE OF INVESTMENTS

Affiliated Investments

Shares or Principal <u>Amount</u>	<u>Company</u>	Cost	<u>Value⁽⁶⁾</u>
	CONVERTIBLE PREFERRED EQUITIES – 14.06 %⁽²⁾⁽³⁾⁽⁴⁾		
	Communications Service NEC – 14.06%		
233,229	AnchorFree, Inc. Series A Convertible Preferred ⁽¹⁾	\$419,812	\$737,004
	Total Affiliated Preferred Securities	419,812	737,304
	COMMON EQUITIES – 0.85 %⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾		
	Communications Service NEC –0.85%		
15,023	AnchorFree, Inc	92,971	44,769
	Total Affiliated Common Securities	92,971	44,769
	TOTAL AFFILIATED INVESTMENTS	512,783	781,773
	TOTAL UNAFFILIATED INVESTMENTS	12,325,900	1,911,904
	TOTAL INVESTMENTS	\$12,838,683	\$2,693,677
	OTHER ASSETS AND LIABILITIES – 48.61 %		2,547,503
	TOTAL NET ASSETS		\$5,241,180

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Schedule of Investments

June 30, 2016 (unaudited)

INFORMATION REGARDING RESTRICTED SECURITIES AND CONTROLLED AFFILIATES ⁽²⁾⁽³⁾

	<u>Date(s) Acquired</u>	<u>Cost 12/31/15</u>	<u>Cost 06/30/16</u>	<u>Value⁽⁶⁾ 06/30/16</u>	<u>% of Net Assets</u>	
AnchorFree, Inc. ⁽¹⁾ Preferred A Equity	04/15/11	\$419,812	\$419,812	\$737,004	14.06	%
AnchorFree, Inc. ⁽¹⁾ Common stock	01/02/16	92,971	92,971	44,769	.85	%
Total Restricted and Controlled Affiliated Securities		\$512,783	\$512,783	\$781,773	14.91	%

(1) Securities in a privately owned company.

(2) “Affiliated,” generally means that the Fund (and/or affiliated funds) has a director on issuer’s board and/or the Fund owns more than 5% of the issuer’s voting shares.

(3) Non-Income Producing.

(4) Percentage is calculated as a percentage of net assets.

(5) “Controlled” refers to Affiliates who have the power to exercise a controlling influence over the management or policies of a company. A person who owns, directly or indirectly through another controlled company, more than 25 % of the voting securities of a company shall be presumed to control such company.

(6) See Note 4 to the Financial Statements.

(7) The PetroHunter Energy Corporation (“PetroHunter”) note is in default as of December 31, 2014. The note is valued on an as converted basis consistent with prior years, using PetroHunter’s observable stock price of \$0.0002.

See Accompanying Notes to Financial Statements

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RENN Fund, Inc.

Statement of Assets and Liabilities

June 30, 2016 (unaudited)

ASSETS

Assets:

Investments at fair value		
Unaffiliated investments, cost of \$12,325,900	\$1,911,905	
Affiliated investments, cost of \$512,783	781,772	
Total investments, cost of \$12,838,683		\$2,693,677
Cash and cash equivalents		2,636,218
Dividends receivable		923
Prepaid and other assets		5,522
		\$5,336,340

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable		\$71,365
Accounts payable – affiliate		23,795
Total liabilities		\$95,160

Net assets:

Common Stock, \$1 par value, 20,000,000 shares authorized, 4,673,867 shares issued, and 4,463,967 shares outstanding		\$4,673,867
Additional paid in capital		22,158,466
Treasury stock at cost		(1,734,967)
Accumulated net realized loss on investments		(9,711,180)
Net unrealized depreciation of investments		(10,145,006)
Net assets		\$5,241,180
Net assets value per share		\$1.17

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Statement of Operations

For the Six Months Ended June 30, 2016 (unaudited)

Investment income:	
Dividend income	\$4,609
	4,609
Expenses:	
General and administrative	25,867
Shareholder expenses	29,470
Legal fees	167,826
Audit and accounting fees	63,420
Directors' fees and expenses	46,500
Insurance expense	29,710
Management fee to affiliate	46,832
	409,625
Net investment loss	(405,016)
Realized and unrealized gain (loss) on investments:	
Net unrealized appreciation of investments	314,939
Net realized loss on investments – unaffiliated	(788,868)
Net loss on investments	\$(473,929)
Net decrease in net assets resulting from operations	\$(878,945)
Net decrease in net assets resulting from operations per share	\$(0.20)
Weighted average shares outstanding	4,463,967

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Statements of Changes in Net Assets

For the Six Months Ended June 30, 2016 (unaudited)

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
From operations:		
Net investment loss	\$ (405,016) \$ (459,062
Net realized (loss) gain on investment	(788,868) 1,654,667
Net unrealized appreciation (depreciation) of investments	314,939	(4,932,770
Net decrease in net assets resulting from operations	(878,945) (3,737,165
Net assets:		
Beginning of period	6,120,125	9,857,290
End of period	\$ 5,241,180	\$ 6,120,125

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Statement of Cash Flows

For the Six Months Ended June 30, 2016 (unaudited)

Cash flows from operating activities:	
Decrease in net assets resulting from operations	\$(878,945)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:	
Net unrealized appreciation on investments	(314,939)
Net realized loss on investments	788,868
Increase in dividend receivable	(497)
Decrease in prepaid and other assets	13,639
Increase in accounts payable	60,039
Decrease in accounts payable-affiliate	(13,053)
Proceeds from sale of investments	750,781
Net cash provided by operating activities	405,893
Net increase in cash and cash equivalents	405,893
Cash and cash equivalents at beginning of the period	2,230,325
Cash and cash equivalents at end of the period	\$2,636,218

See Accompanying Notes to Financial Statements

RENN Fund, Inc.

Notes to Financial Statements

For the Six Months Ended June 30, 2016 (unaudited)

Note 1 Organization and Business Purpose

RENN Fund, Inc. (the “Fund”), is a registered, non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”).

The Fund, a Texas corporation, was organized and commenced operations in 1994 and is registered under and pursuant to the provisions of Section 8(a) of the 1940 Act.

The investment objective of the Fund is to provide its stockholders primarily with long-term capital appreciation by investing substantially in privately-placed convertible and equity securities of emerging growth companies traded on U.S. securities exchanges.

RENN Capital Group, Inc. (“RENN Group”), a Texas corporation, serves as the Investment Adviser to the Fund. In this capacity, RENN Group is primarily responsible for the selection, evaluation, structure, valuation, and administration of the Fund’s investment portfolio, subject to the supervision of the Board of Directors. RENN Group is a registered investment adviser under the Investment Advisers Act of 1940, as amended.

Note 2 Summary of Significant Accounting Policies

Valuation of Investments

All investments are stated at their estimated fair value, as described in Note 4.

Revenue Recognition

The Fund recognizes realized gain/loss in the period of the sale based upon the identified cost basis. Change in unrealized gain/loss is reflected during the period of the change. Dividend income is recorded on the record date. Interest income is recorded as earned on an accrual basis. For debentures that are late in making payments as scheduled in the note agreements, the Fund determines whether to continue accruing interest on the note based upon the current circumstances facing the companies. The Fund reserves any dividends or interest income which is deemed to be potentially uncollectible based upon an analysis of several factors used in assessing the financial condition of each company.

Cash and Cash Equivalents

As of June 30, 2016, cash and cash equivalents are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts. The Fund has not experienced any losses as a result of this risk. The Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of June 30, 2016, cash equivalents were held in the Federated Prime Obligations Fund which is not covered by depository insurance.

RENN Fund, Inc.

Notes to Financial Statements

For the Six Months Ended June 30, 2016 (unaudited)

Note 2 Summary of Significant Accounting Policies, continued

Income Tax

The Fund has elected the special income tax treatment available to “regulated investment company” (“RIC”) under Subchapter M of the Internal Revenue Code (“IRC”) which allows the Fund to be relieved of federal income tax on that part of its net investment income and realized capital gain that it pays out to its stockholders. The requirements to qualify for RIC status include, but are not limited to certain qualifying income tests, asset diversification tests and distribution of substantially all of the Fund’s taxable investment income to its stockholders. It is the intent of management to comply with all IRC requirements as they pertain to a RIC and to distribute all of the Fund’s taxable investment income and realized long-term capital gain within the defined period under the IRC to qualify as a RIC. Failure to qualify as a RIC would subject the Fund to federal income tax as if the Fund were an ordinary corporation, which could result in a substantial reduction in the Fund’s net assets as well as the amount of cash available for distribution to stockholders. Continued qualification as a RIC requires management to satisfy certain investment diversification requirements in future years. There can be no assurance that the Fund will qualify as a RIC in future years.

Federal income taxes payable on behalf of stockholders on realized capital gain that the Fund elects to retain are accrued and reflected as tax expense paid on behalf of stockholders on the last day of the tax year in which such gain is realized.

Use of Estimates

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 the amounts and disclosures in the financial statements. Actual results could differ from these estimates.

Note 3 Management Fees and Reimbursement

Pursuant to an Investment Advisory Agreement (the “Agreement”) effective May 15, 2009, RENN Group performs certain services, including certain management, investment advisory and administrative services necessary for the operation of the Fund. In addition, under the Agreement, the Investment Adviser is reimbursed by the Fund for certain directly allocable administrative expenses. A summary of fees and reimbursements paid by the Fund under either the Agreement or the prospectus is as follows:

RENN Group receives a management fee equal to a quarterly rate of 0.4375% of the Fund’s net assets, as determined at the end of each quarter, each payment to be due as of the last day of the calendar quarter. The Fund incurred \$46,832, during the six months ended June 30, 2016, for such management fees.

The Investment Adviser was reimbursed by the Fund for directly allocable administrative expenses paid by the Investment Adviser on behalf of the Fund. Such reimbursements were \$14,705 during the six months ended June 30, 2016.

Note 4 Valuation of Investments

Investments are carried in the statements of assets and liabilities at fair value, as determined in good faith by RENN Group, subject to the approval of the Fund’s Board of Directors. The fair values reported are subject to various risks including changes in the equity markets, general economic conditions, and the financial performance of the companies. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is

RENN Fund, Inc.

Notes to Financial Statements

For the Six Months Ended June 30, 2016 (unaudited)

Note 4 Valuation of Investments (continued)

The Fund generally invests in common securities, preferred securities, convertible and nonconvertible debt securities, and warrants. These securities may be unregistered and thinly-to-moderately traded. Generally, the Fund negotiates registration rights at the time of purchase and the portfolio companies are required to register the shares within a designated period, and the cost of registration is borne by the portfolio company.

On a weekly basis, RENN Group prepares a valuation to determine fair value of the investments of the Fund. The Board of Directors approves the valuation on a quarterly basis. Interim board involvement may occur if material issues arise before quarter end. The valuation principles are described below.

Unrestricted common stock of companies listed on an exchange, such as the NYSE or NASDAQ, or in the over-the-counter market is valued at the closing price on the date of valuation. Thinly traded unrestricted common stock of companies listed on an exchange, such as the NYSE or NASDAQ, or in the over-the-counter market is valued at the closing price on the date of valuation, less a marketability discount as determined appropriate by the Fund Managers and approved by the Board of Directors.

Restricted common stock of companies listed on an exchange, such as the NYSE or NASDAQ, or in the over-the-counter market is valued based on the quoted price for an otherwise identical unrestricted security of the same issuer that trades in a public market, adjusted to reflect the effect of any significant restrictions.

The unlisted preferred stock of companies with common stock listed on an exchange, such as the NYSE or NASDAQ, or in the over-the-counter market is valued at the closing price of the common stock into which the preferred stock is convertible on the date of valuation.

Debt securities are valued at fair value. The Fund considers, among other things, whether a debt issuer is in default or bankruptcy. It also considers the underlying collateral. Fair value is generally determined to be the greater of the face value of the debt or the market value of the underlying common stock into which the instrument may be converted.