

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-30D

November 30, 2012

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**Adviser**

Babson Capital Management LLC  
1500 Main Street, P.O. Box 15189  
Springfield, Massachusetts 01115-5189

**Transfer Agent & Registrar**

DST Systems, Inc.  
P.O. Box 219086  
Kansas City, MO 64121-9086  
1-800-647-7374

**Independent Registered Public Accounting Firm**

KPMG LLP  
Boston, Massachusetts 02110

**Internet Website**

[www.babsoncapital.com/mpv](http://www.babsoncapital.com/mpv)

**Counsel to the Trust**

Ropes & Gray LLP  
Boston, Massachusetts 02110

Babson Capital Participation Investors  
c/o Babson Capital Management LLC  
1500 Main Street, Suite 2200  
Springfield, Massachusetts 01115  
(413) 226-1516

**Custodian**

State Street Bank and Trust Company  
Boston, Massachusetts 02116

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**Investment Objective and Policy**

Babson Capital Participation Investors (the “Trust”) is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol “MPV”. The Trust’s share price can be found in the financial section of most newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as common stock, warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

**Form N-Q**

The Trust files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission (“SEC”) for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC’s website at <http://www.sec.gov>; and (ii) at the SEC’s Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available upon request by calling, toll-free, 866-399-1516.

**Proxy Voting Policies & Procedures; Proxy Voting Record**

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital. A description of Babson Capital’s proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust’s website: <http://www.babsoncapital.com/mpv>; and (3) on the SEC’s website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust’s website: <http://www.babsoncapital.com/mpv>; and (2) on the SEC’s website at <http://www.sec.gov>.

Babson Capital Management LLC (“Babson Capital”) manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year. Accordingly, the Trust pays dividends to shareholders in January, May, August, and November. All registered shareholders are automatically enrolled in the Dividend Reinvestment and Cash Purchase Plan unless cash distributions are requested.

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Babson Capital Participation Investors

To Our Shareholders

October 31, 2012

We are pleased to present the September 30, 2012 Quarterly Report of Babson Capital Participation Investors (the "Trust").

The Board of Trustees declared a quarterly dividend of 27 cents per share, payable on November 9, 2012 to shareholders of record on October 29, 2012. The Trust paid a 27 cent per share dividend for the preceding quarter. The Trust earned 25 cents per share of net investment income for the third quarter of 2012, compared to 25 cents per share in the previous quarter.

During the third quarter, the net assets of the Trust increased to \$127,920,093 or \$12.58 per share compared to \$124,331,897 or \$12.25 per share on June 30, 2012. This translates into a 5.0% total return for the quarter, based on the change in the Trust's net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 11.3%, 13.8%, 8.3%, and 113.9% for the 1-, 3-, 5-, and 10-year time periods, respectively, based on the change in the Trust's net assets assuming the reinvestment of all dividends.

The Trust's share price increased 8.3% during the quarter, from \$14.40 per share as of June 30, 2012 to \$15.59 per share as of September 30, 2012. The Trust's market price of \$15.59 per share equates to a 23.9% premium over the September 30, 2012 net asset value per share of \$12.58. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 17.5%, 9.3% and 10.5%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 5.3% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 4.5% for the quarter.

The Trust closed two new private placement investments and four "follow-on" investments in existing portfolio companies during the third quarter. The two new investments were in ABC Industries, Inc. and HVAC Holdings, Inc., while the four follow-on investments were in CHG Alternative Education Holding Company, DPC Holdings LLC, LPC Holding Company and Merex Holding Corporation. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$2,768,000.

U.S. middle market buyout activity picked up nicely in the third quarter of 2012, and has remained strong so far in the fourth quarter. Despite the increase in deal activity, the continued abundance of capital, including senior debt, mezzanine debt and equity capital, has caused purchase price multiples and leverage levels for middle market transactions to remain high. In the face of these aggressive market conditions, we were pleased to be able to close six new investments in the third quarter. We expect our fourth quarter investment activity to be even stronger. In fact, in the first month of the fourth quarter, we have already closed five new investments and we have several more in process. Though we are actively closing new deals, we are doing so cautiously and with discipline, consistent with our longstanding investment philosophy of taking prudent levels of risk and getting paid appropriately for the risks taken. This approach has served us well for many years and through all kinds of market cycles.

We continue to be pleased with the performance of our portfolio companies, as most reported improved operating results in the third quarter of 2012. Several more of our companies were also able to resume paying cash interest on their debt obligations due to their improved financial results and liquidity positions. Realization activity for the Trust in the third quarter was strong once again, with four companies, Aero Holdings, Inc., Nyloncraft, Inc., Power Services Holding Company, and Stanton Carpet Holding Company, sold for nice gains. The Nyloncraft realization is particularly noteworthy. In January 2002, we made our original investment in the company, which is a supplier of

plastic components to the U.S. automotive industry. Nyloncraft's performance was negatively impacted by the severe downturn in the auto industry in 2008-2009. Thanks to the efforts of the transaction sponsor, Hammond,

(Continued)

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Kennedy, Whitney & Company, and the company's management team, the company survived the downturn and actually gained market share as the industry rebounded in 2010. Our patience with the company ultimately paid off as the company was sold in September 2012 and we realized nearly two and one-half times our original investment. Since the end of the third quarter, we have had another three companies sold, bringing the year-to-date total to 14 realizations for the portfolio. We have a few more companies that we expect to be sold by year-end. Overall, 2012 will be a very strong year for portfolio company sales. In addition to this realization activity, refinancing activity, in which the Trust's subordinated note holdings are fully or partially prepaid, continues at a high level, as companies seek to take advantage of improved operating performance, low interest rates and credit availability. We have had 14 full or partial prepayments so far this year. As mentioned in prior reports, strong realization and refinancing activity is a double-edged sword, as the resulting loss of income-producing investments could adversely impact the Trust's ability to sustain its dividend level. We have been fortunate that our new investment activity in recent periods has been strong and has enabled us to maintain the income-generating capacity of the portfolio.

Thank you for your continued interest in and support of Babson Capital Participation Investors.

Sincerely,

Michael L. Klofas  
President

\* Based on market value of total investments (including cash)

Cautionary Notice: Certain statements contained in this report may be "forward looking" statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made and which reflect management's current estimates, projections, expectations or beliefs, and which are subject to risks and uncertainties that may cause actual results to differ materially. These statements are subject to change at any time based upon economic, market or other conditions and may not be relied upon as investment advice or an indication of the Trust's trading intent. References to specific securities are not recommendations of such securities, and may not be representative of the Trust's current or future investments. We undertake no obligation to publicly update forward looking statements, whether as a result of new information, future events, or otherwise.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

## Assets:

## Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$106,946,713)	\$95,717,951
Corporate restricted securities at market value (Cost - \$8,349,289)	8,580,036
Corporate public securities at market value (Cost - \$25,166,233)	26,864,165
Short-term securities at amortized cost	8,499,843
Total investments (Cost - \$148,962,078)	139,661,995
Cash	3,916,368
Interest receivable	1,501,718
Receivable for investments sold	14,391
Other assets	29,426
 Total assets	 145,123,898

## Liabilities:

Note payable	15,000,000
Payable for investments purchased	1,042,628
Deferred tax liability	539,228
Investment advisory fee payable	287,820
Interest payable	27,267
Accrued expenses	306,862
 Total liabilities	 17,203,805

Total net assets	\$ 127,920,093
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## Net Assets:

Common shares, par value \$.01 per share	\$ 101,674
Additional paid-in capital	94,840,733
Retained net realized gain on investments, prior years	33,183,269
Undistributed net investment income	3,611,666
Accumulated net realized gain on investments	6,022,062
Net unrealized depreciation of investments	(9,839,311 )
 Total net assets	 \$ 127,920,093

Common shares issued and outstanding (14,785,750 authorized)	10,167,431
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Net asset value per share	\$ 12.58
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See Notes to Consolidated Financial Statements





CONSOLIDATED STATEMENT OF OPERATIONS

For the nine months ended September 30, 2012

(Unaudited)

Investment Income:	
Interest	\$9,311,928
Dividends	367,668
Other	104,723
 Total investment income	 9,784,319
Expenses:	
Investment advisory fees	844,816
Interest	460,125
Trustees' fees and expenses	340,000
Professional fees	214,900
Reports to shareholders	43,500
Custodian fees	27,000
Other	24,373
 Total expenses	 1,954,714
 Investment income - net	 7,829,605
Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	4,143,346
Income tax expense	(4,314 )
Net realized gain on investments after taxes	4,139,032
Net change in unrealized depreciation of investments before taxes	351,846
Net change in deferred income tax expense	(37,100 )
Net change in unrealized depreciation of investments after taxes	314,746
 Net gain on investments	 4,453,778
 Net increase in net assets resulting from operations	 \$12,283,383

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

Babson Capital Participation Investors

For the nine months ended September 30, 2012

(Unaudited)

Net decrease in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$(463,283 )
Purchases of portfolio securities	(28,869,455)
Proceeds from disposition of portfolio securities	30,938,685
Interest, dividends and other income received	7,949,031
Interest expense paid	(463,533 )
Operating expenses paid	(1,373,515 )
Income taxes paid	(4,314 )

Net cash provided by operating activities	7,713,616
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Cash flows from financing activities:

Cash dividends paid from net investment income	(9,724,641 )
Receipts for shares issued on reinvestment of dividends	794,693

Net cash used for financing activities	(8,929,948 )
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Net decrease in cash	(1,216,332 )
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Cash - beginning of year	5,132,700
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Cash - end of period	\$3,916,368
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Reconciliation of net increase in net assets to net cash provided by operating activities:

Net increase in net assets resulting from operations	\$12,283,383
Increase in investments	(5,619,033 )
Increase in interest receivable	(223,571 )
Increase in receivable for investments sold	(14,391 )
Decrease in other assets	89,834
Increase in payable for investments purchased	1,042,628
Increase in deferred tax liability	37,100
Increase in investment advisory fee payable	17,101
Decrease in interest payable	(3,408 )
Increase in accrued expenses	103,973

Total adjustments to net assets from operations	(4,569,767 )
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Net cash provided by operating activities	\$7,713,616
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See Notes to Consolidated Financial Statements



CONSOLIDATED STATEMENTS OF CHANGES IN NET  
ASSETS

	For the nine months ended 09/30/2012 (Unaudited)	For the year ended 12/31/2011
Increase in net assets:		
Operations:		
Investment income - net	\$ 7,829,605	\$ 11,526,972
Net realized gain on investments after taxes	4,139,032	627,341
Net change in unrealized depreciation of investments after taxes	314,746	166,242
Net increase in net assets resulting from operations	12,283,383	12,320,555
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2012 - 55,545; 2011 - 61,615)	794,693	871,579
Dividends to shareholders from:		
Net investment income (2012 - \$0.54 per share; 2011 - \$1.23 per share)	(5,477,649)	(12,387,295)
Net realized gains (2012 - \$0.00 per share; 2011 - \$0.00 per share)	-	(25,408)
Total increase in net assets	7,600,427	779,431
Net assets, beginning of year	120,319,666	119,540,235
Net assets, end of period/year (including undistributed net investment income of \$3,611,666 and \$1,259,710, respectively)	\$127,920,093	\$ 120,319,666

See Notes to Consolidated Financial Statements

## CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Babson Capital Participation Investors

Selected data for each share of beneficial interest outstanding:

	For the nine months ended 09/30/2012 (Unaudited)	For the years ended December 31,				
		2011	2010	2009	2008	2007
Net asset value:						
Beginning of year	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84	\$ 12.90
Net investment income (a)	0.77	1.14	1.02	0.94	1.08	1.23
Net realized and unrealized gain (loss) on investments	0.44	0.08	0.95	(0.13 )	(1.82 )	(0.05 )
Total from investment operations	1.21	1.22	1.97	(0.81 )	0.74	1.18
Dividends from net investment income to common shareholders	(0.54 )	(1.23 )	(1.00 )	(1.00 )	(1.00 )	(1.23 )
Dividends from net realized gain on investments to common shareholders	-	(0.00 )(b)	-	-	-	(0.02 )
Increase from dividends reinvested	0.01	0.02	0.01	0.00	0.00	0.01
Total dividends	(0.53 )	(1.21 )	(0.99 )	(1.00 )	(1.00 )	(1.24 )
Net asset value:						
End of period/year	\$ 12.58	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84
Per share market value:						
End of period/year	\$ 15.59	\$ 15.85	\$ 13.88	\$ 12.20	\$ 9.05	\$ 13.18
Total investment return						
Net asset value (c)	10.46 %	10.56 %	18.71 %	7.60 %	(6.01 %)	9.95 %
Market value (c)	2.23 %	24.16 %	22.94 %	40.86 %	(25.36 %)	(1.30 %)
Net assets (in millions):						
End of period/year	\$ 127.92	\$ 120.32	\$ 119.54	\$ 108.93	\$ 110.18	\$ 126.63
Ratio of operating expenses to average net assets	1.62 %(e)	1.42 %	1.46 %	1.41 %	1.33 %	1.36 %

Ratio of interest expense to average net assets	0.50	%(e)	0.56	%	0.61	%	0.63	%	0.58	%	0.56	%
Ratio of income tax expense to average net assets (d)	0.00	%(e)	0.20	%	0.46	%	0.00	%	0.00	%	0.48	%
Ratio of net expenses to average net assets	2.12	%(e)	2.18	%	2.53	%	2.04	%	1.91	%	2.40	%
Ratio of net investment income to average net assets	8.47	%(e)	9.33	%	8.96	%	8.55	%	8.74	%	9.32	%
Portfolio turnover	24	%	21	%	27	%	23	%	32	%	33	%

(a) Calculated using average shares.

(b) Rounds to less than \$0.01 per share.

(c) Net asset value return represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions which differs from the total investment return based on the Trust's market value due to the difference between the Trust's net asset value and the market value of its shares outstanding; past performance is no guarantee of future results.

(d) As additional information, this ratio is included to reflect the taxes paid on retained long-term gains. These taxes paid are netted against realized capital gains in the Statement of Operations. The taxes paid are treated as deemed distributions and a credit for the taxes paid is passed on to shareholders.

(e) Annualized

Senior borrowings:

Total principal amount (in millions)	\$15	\$15	\$12	\$12	\$12	\$12
Asset coverage per \$1,000 of indebtedness	\$9,528	\$9,021	\$10,962	\$10,077	\$10.181	\$11,552

See Notes to Consolidated Financial Statements

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 81.54%: (A)				
Private Placement Investments - 74.83%				
A E Company, Inc.				
A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.				
Common Stock (B)	184,615 shs.	11/10/09	\$184,615	\$173,352
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566 253,181	86,676 260,028
A H C Holding Company, Inc.				
A designer and manufacturer of boilers and water heaters for the commercial sector.				
15% Senior Subordinated Note due 2015	\$1,426,441	11/21/07	1,411,770	1,426,441
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009 1,530,779	165,122 1,591,563
A S A P Industries LLC				
A designer and manufacturer of components used on oil and natural gas wells.				
Limited Liability Company Unit Class A-2 (B)	676 uts.	12/31/08	74,333	337,245
Limited Liability Company Unit Class A-3 (B)	608 uts.	12/31/08	66,899 141,232	303,523 640,768
A S C Group, Inc.				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
12.75% Senior Subordinated Note due 2016	\$1,227,273	10/09/09	1,103,979	1,239,546
Limited Liability Company Unit Class A (B)	2,186 uts.	*	214,793	296,506
Limited Liability Company Unit Class B (B)	1,473 uts.	10/09/09	144,716	199,795
* 10/09/09 and 10/27/10.			1,463,488	1,735,847
A W X Holdings Corporation				
A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.				
10.5% Senior Secured Term Note due 2014 (D)	\$ 420,000	05/15/08	413,944	378,000
13% Senior Subordinated Note due 2015 (D)	\$ 420,000	05/15/08	384,627	-
Common Stock (B)	60,000 shs.	05/15/08	60,000	-
Warrant, exercisable until 2015, to purchase				

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common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	-
			894,225	378,000
ABC Industries, Inc.				
A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 2019	\$ 600,000	08/01/12	537,925	600,808
Preferred Stock Series A (B)	150,000 shs.	08/01/12	150,000	142,500
Warrant, exercisable until 2022, to purchase				
common stock at \$.01 per share (B)	26,897 shs.	08/01/12	50,935	269
			738,860	743,577

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
Advanced Technologies Holdings A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	546 shs.	12/27/07	\$270,000	\$675,720
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	34,416
			291,600	710,136
All Current Holding Company A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$603,697	09/26/08	573,331	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	97,307
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	69,193
			691,218	770,197
American Hospice Management Holding LLC A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$1,687,503	*	1,665,322	1,687,503
Preferred Class A Unit (B)	1,706 uts.	**	170,600	336,093
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	93,970
Common Class B Unit (B)	16,100 uts.	01/22/04	1	-
Common Class D Unit (B)	3,690 uts.	09/12/06	-	-
			1,916,712	2,117,566
* 01/22/04 and 06/09/08. ** 01/22/04 and 09/12/06.				
Apex Analytix Holding Corporation A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe.				
12.5% Senior Subordinated Note due 2017	\$ 1,012,500	04/28/09	918,235	1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	98,751
Common Stock (B)	723 shs.	04/28/09	723	44,012
			1,081,227	1,155,263
Arch Global Precision LLC A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$ 766,098	12/21/11	747,852	802,826
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	37,046
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	221,582	288,834

997,852

1,128,706

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Arrow Tru-Line Holdings, Inc.</b>				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
8% Senior Subordinated				
Note due 2014 (D)	\$ 1,054,025	05/18/05	\$ 964,526	\$ 895,921
Preferred Stock (B)	33 shs.	10/16/09	33,224	-
Common Stock (B)	263 shs.	05/18/05	263,298	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)				
	69 shs.	05/18/05	59,362	-
			1,320,410	895,921
<b>Associated Diversified Services</b>				
A provider of routine maintenance and repair services primarily to electric utility companies predominantly on electric power distribution lines.				
10% Senior Secured Term				
Note due 2016 (C)	\$ 252,000	09/30/10	247,385	255,860
13% Senior Subordinated				
Note due 2017	\$ 332,000	09/30/10	302,891	332,000
Limited Liability Company				
Unit Class B (B)	36,000 uts.	09/30/10	36,000	44,215
Limited Liability Company				
Unit Class B (B)	27,520 uts.	09/30/10	27,520	33,800
			613,796	665,875
<b>Baby Jogger Holdings LLC</b>				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated				
Note due 2019	\$ 932,861	04/20/12	915,181	950,511
Common Stock (B)	754 shs.	04/20/12	75,376	88,336
			990,557	1,038,847
<b>Barcodes Group, Inc.</b>				
A distributor and reseller of automatic identification and data capture equipment, including mobile computers, scanners, point-of-sale systems, labels, and accessories.				
13.5% Senior Subordinated Note				
due 2016	\$ 651,735	07/27/10	628,369	658,252
Preferred Stock (B)	13 shs.	07/27/10	131,496	131,500
Common Stock Class A (B)	44 shs.	07/27/10	437	98,887

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Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	8 shs.	07/27/10	76 760,378	17,160 905,799
Bravo Sports Holding Corporation A designer and marketer of niche branded consumer products including canopies, trampolines, in-line skates, skateboards, and urethane wheels.				
12.5% Senior Subordinated Note due 2014	\$ 1,207,902	06/30/06	1,184,711	301,976
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	-
Common Stock (B)	1 sh.	06/30/06	152	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	164 shs.	06/30/06	48,760 1,375,569	- 301,976

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>C D N T, Inc.</b>				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
10.5% Senior Secured Term Note due 2014	\$ 187,718	08/07/08	\$ 186,309	\$ 187,718
12.5% Senior Subordinated Note due 2015	\$ 429,070	08/07/08	407,142	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	48,060
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965 668,276	37,789 702,637
<b>Capital Specialty Plastics, Inc.</b>				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	567,149
* 12/30/97 and 05/29/99.				
<b>CHG Alternative Education Holding Company</b>				
A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs.				
13.5% Senior Subordinated Note due 2018		\$731,111	01/19/11	694,916
14% Senior Subordinated Note due 2019		\$188,104	08/03/12	184,409
Common Stock (B)		375 shs.	01/19/11	37,500
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)		295 shs.	01/19/11	29,250 946,075
				25,128 997,564
<b>Church Services Holding Company</b>				
A provider of diversified residential services to homeowners in Houston, Dallas, and Austin markets.				
14.5% Senior Subordinated Note due 2018		\$404,099	03/26/12	391,192
Common Stock (B)		1,327 shs.	*	132,700
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)		57 shs.	03/26/12	5,740
* 03/26/12, 05/25/12 and 06/19/12.				
				529,632
				8,159
				614,326
<b>Clough, Harbour and Associates</b>				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)		147 shs.	12/02/08	146,594
				90,972

Coeur, Inc.

A producer of proprietary, disposable power injection syringes.

12% Senior Subordinated Note due 2016	\$642,857	10/10/08	603,968	642,857
Common Stock (B)	321 shs.	10/10/08	32,143	50,721
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	495 shs.	10/10/08	48,214	78,031
			684,325	771,609

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Connecticut Electric, Inc.</b>				
A supplier and distributor of electrical products sold into the retail and wholesale markets.				
10% Senior Subordinated Note due 2014 (D)	\$771,051	01/12/07	\$719,299	\$693,946
Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	82,613	16,614
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	12,018
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	135,051
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	222
			861,668	857,851
<b>Connor Sport Court International, Inc.</b>				
A designer and manufacturer of outdoor and indoor synthetic sports flooring and other temporary flooring products.				
Preferred Stock Series B-2 (B)	9,081 shs.	07/05/07	370,796	899,880
Preferred Stock Series C (B)	3,748 shs.	07/05/07	125,207	371,430
Common Stock (B)	380 shs.	07/05/07	4	-
Limited Partnership Interest (B)	6.88% int.	*	103,135	-
* 08/12/04 and 01/14/05.			599,142	1,271,310
<b>CorePharma LLC</b>				
A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.				
Warrant, exercisable until 2013, to purchase common stock at \$.001 per share (B)	10 shs.	08/04/05	72,617	575,888
<b>Crane Rental Corporation</b>				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	\$1,215,000	08/21/08	1,145,923	1,193,511
Common Stock (B)	135,000 shs.	08/21/08	135,000	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	72,037 shs.	08/21/08	103,143	-
			1,384,066	1,193,511
<b>Custom Engineered Wheels, Inc.</b>				
A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs.				
12.5% Senior Subordinated Note due 2016	\$ 1,025,480	10/27/09	929,568	1,044,151
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	143,394
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	104,767

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Common Stock (B)	38 shs.	10/27/09	38,244	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735	-
			1,254,389	1,292,312

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>DPC Holdings LLC</b>				
A provider of accounts receivable management and revenue cycle management services to customers in the healthcare, financial and utility industries.				
14% Senior Subordinated Note due 2018	\$1,132,147	*	\$1,112,017	\$1,157,662
Limited Liability Company Unit Class A (B)	13,548 uts.	*	135,477	86,345
* 10/21/11 and 08/03/12.			1,247,494	1,244,007
<b>DPL Holding Corporation</b>				
A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.				
14% Senior Subordinated Note due 2019	\$1,031,038	05/04/12	1,011,511	1,071,620
Preferred Stock (B)	20 shs.	05/04/12	204,546	207,090
Common Stock (B)	20 shs.	05/04/12	22,727	11,416
			1,238,784	1,290,126
<b>Duncan Systems, Inc.</b>				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2013	\$154,286	11/01/06	153,814	153,439
13% Senior Subordinated Note due 2014	\$488,572	11/01/06	467,636	481,911
Common Stock (B)	102,857 shs.	11/01/06	102,857	7,934
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	44,663	2,491
			768,970	645,775
<b>E S P Holdco, Inc.</b>				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
14% Senior Subordinated Note due 2015	\$ 1,291,694	01/08/08	1,278,527	1,291,694
Common Stock (B)	349 shs.	01/08/08	174,701	183,720
			1,453,228	1,475,414
<b>E X C Acquisition Corporation</b>				
A manufacturer of pre-filled syringes and pump systems used for intravenous drug delivery.				
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	11 shs.	06/28/04	40,875	14,003
<b>Eatem Holding Company</b>				

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A developer and manufacturer of savory flavor systems for soups, sauces, gravies, and other products produced by food manufacturers for retail and foodservice end products.

12.5% Senior Subordinated Note due 2018	\$ 950,000	02/01/10	850,538	959,204
Common Stock (B)	50 shs.	02/01/10	50,000	41,934
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	119 shs.	02/01/10	107,100 1,007,638	99,988 1,101,126

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>ELT Holding Company</b>				
A provider of web-based ethics and compliance training solutions for companies in the United States.				
14% Senior Subordinated Note due 2019	\$ 919,880	03/01/12	\$ 902,711	\$ 935,478
Common Stock (B)	41 shs.	03/01/12	90,909	67,611
			993,620	1,003,089
<b>F C X Holdings Corporation</b>				
A distributor of specialty/technical valves, actuators, accessories, and process instrumentation supplying a number of industrial, high purity, and energy end markets in North America.				
15% Senior Subordinated Note due 2017	\$ 1,260,099	10/06/08	1,247,896	1,260,099
14% Senior Subordinated Note due 2017	\$ 341,433	03/02/12	335,359	358,504
Preferred Stock Series A (B)	232 shs.	*	23,200	33,367
Preferred Stock Series B (B)	2,298 shs.	10/06/08	229,804	330,504
Common Stock (B)	1,625 shs.	10/06/08	1,625	172,866
* 12/30/10 and 07/01/11.			1,837,884	2,155,340
<b>F F C Holding Corporation</b>				
A leading U.S. manufacturer of private label frozen novelty and ice cream products.				
16% Senior Subordinated Note due 2017	\$ 889,469	09/27/10	876,804	898,363
Limited Liability Company Units Preferred (B)	171 uts.	09/27/10	153,659	176,968
Limited Liability Company Units (B)	171 uts.	09/27/10	17,073	125,154
			1,047,536	1,200,485
<b>F G I Equity LLC</b>				
A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings.				
14.25% Senior Subordinated Note due 2016	\$ 448,226	12/15/10	438,550	457,191
14.25% Senior Subordinated Note due 2016	\$ 111,477	02/29/12	111,513	114,822
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	122,933
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	15,412
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	12,187
			639,100	722,545
<b>F H Equity LLC</b>				

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A designer and manufacturer of a full line of automatic transmission filters and filtration systems for passenger vehicles.

14% Senior Subordinated Note due 2017	\$ 518,337	12/20/10	501,134	518,337
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	12,550
			517,143	530,887

Flutes, Inc.

An independent manufacturer of micro fluted corrugated sheet material for the food and consumer products packaging industries.

10% Senior Secured Term Note due 2013 (D)	\$524,791	04/13/06	519,050	209,916
14% Senior Subordinated Note due 2013 (D)	\$317,177	04/13/06	290,908	-
			809,958	209,916

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>G C Holdings</b>				
A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.				
12.5% Senior Subordinated Note due 2017	\$1,000,000	10/19/10	\$946,077	\$1,020,000
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	46,958	266,803
			993,035	1,286,803
<b>Golden County Foods Holding, Inc.</b>				
A manufacturer of frozen appetizers and snacks.				
16% Senior Subordinated Note due 2015 (D)	\$1,012,500	11/01/07	938,215	-
14% PIK Note due 2015 (D)	\$250,259	12/31/08	217,699	-
8% Series A Convertible Preferred Stock, convertible into common shares (B)	151,643 shs.	11/01/07	77,643	-
			1,233,557	
<b>H M Holding Company</b>				
A designer, manufacturer, and importer of promotional and wood furniture.				
7.5% Senior Subordinated Note due 2014 (D)	\$362,700	10/15/09	271,181	90,675
Preferred Stock (B)	21 shs.	*	21,428	-
Preferred Stock Series B (B)	1,088 shs.	10/15/09	813,544	-
Common Stock (B)	180 shs.	02/10/06	180,000	-
Common Stock Class C (B)	296 shs.	10/15/09	-	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	67 shs.	02/10/06	61,875	-
* 09/18/07 and 06/27/08.			1,348,028	90,675
<b>Handi Quilter Holding Company</b>				
A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.				
12% Senior Subordinated Note due 2017	\$461,539	11/14/11	430,233	479,445
Common Stock (B)	38 shs.	11/14/11	38,461	42,021
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	28 shs.	11/14/11	25,596	30,090
			494,290	551,556
<b>Healthcare Direct Holding Company</b>				
A direct-to-customer marketer of discount dental plans.				
14% Senior Subordinated Note due 2019	\$706,295	03/09/12	693,089	720,120
Common Stock (B)	517 shs.	03/09/12	51,724	44,129
			744,813	764,249



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>HGGC Citadel Plastics Holdings</b>				
A world-leading source for thermoset and thermoplastic compounds.				
14% Senior Subordinated Note due 2019	\$ 909,916	02/29/12	\$ 892,939	\$ 925,333
Common Stock (B)	101 shs.	02/29/12	100,806	95,397
			993,745	1,020,730
<b>Home Décor Holding Company</b>				
A designer, manufacturer and marketer of framed art and wall décor products.				
Common Stock (B)	33 shs.	*	33,216	79,516
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	106 shs.	*	105,618	252,815
* 06/30/04 and 08/19/04.			138,834	332,331
<b>HOP Entertainment LLC</b>				
A provider of post production equipment and services to producers of television shows and motion pictures.				
Limited Liability Company				
Unit Class F (B)	47 uts.	10/14/11	-	-
Limited Liability Company				
Unit Class G (B)	114 uts.	10/14/11	-	-
Limited Liability Company				
Unit Class H (B)	47 uts.	10/14/11	-	-
Limited Liability Company				
Unit Class I (B)	47 uts.	10/14/11	-	-
			-	-
<b>Hospitality Mints Holding Company</b>				
A manufacturer of individually-wrapped imprinted promotional mints.				
14% Senior Subordinated Note due 2016	\$ 1,569,098	08/19/08	1,502,893	1,490,643
Common Stock (B)	251 shs.	08/19/08	251,163	6,029
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	60,233	1,558
			1,814,289	1,498,230
<b>HVAC Holdings, Inc.</b>				

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A provider of integrated energy efficiency services and maintenance programs for HVAC systems.

14% Senior Subordinated Note due 2019	\$ 1,136,364	09/27/12	1,113,658	1,135,361
Preferred Stock Series A (B)	1,127 shs.	09/27/12	112,726	107,065
Common Stock (B)	910 shs.	09/27/12	910	865
			1,227,294	1,243,291

Ideal Tridon Holdings, Inc.

A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.

13.5% Senior Subordinated Note due 2018	\$ 920,027	10/27/11	903,566	944,999
Common Stock (B)	93 shs.	10/27/11	92,854	100,493
			996,420	1,045,492

Insurance Claims Management, Inc.

A third party administrator providing auto and property claim administration services for insurance companies.

Common Stock (B)	47 shs.	02/27/07	1,424	287,519
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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>International Offshore Services LLC</b>				
A leading provider of marine transportation services, platform decommissioning, and salvage services to oil and gas producers in the shallow waters of the Gulf of Mexico.				
14.25% Senior Subordinated Secured Note due 2017 (D) Limited Liability Company Unit (B)				
	\$ 1,350,000	07/07/09	\$ 1,236,405	\$ 337,500
	1,647 uts.	07/07/09	98,833	-
			1,335,238	337,500
<b>J A C Holding Enterprises, Inc.</b>				
A supplier of luggage racks and accessories to the original equipment manufacturers.				
12.5% Senior Subordinated Note due 2017				
	\$ 833,333	12/20/10	730,969	777,888
	165 shs.	12/20/10	165,000	67,601
	0.06 shs.	12/20/10	-	25
	33 shs.	12/20/10	1,667	-
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)				
	12 shs.	12/20/10	105,643	-
			1,003,279	845,514
<b>Jason Partners Holdings LLC</b>				
A diversified manufacturing company serving various industrial markets.				
Limited Liability Company Unit (B)				
	48 uts.	09/21/10	449,086	25,511
<b>K &amp; N Parent, Inc.</b>				
A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.				
14% Senior Subordinated Note due 2017				
	\$ 873,913	12/23/11	857,762	908,590
	102 shs.	12/23/11	96,578	96,577
	29 shs.	12/23/11	27,335	27,332
	130 shs.	12/23/11	6,522	17,362
			988,197	1,049,861
<b>K N B Holdings Corporation</b>				
A designer, manufacturer and marketer of products for the custom framing market.				

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15% Senior Subordinated Note due 2017	\$ 2,218,493	*	2,051,724	2,218,493
Common Stock (B)	71,053 shs.	05/25/06	71,053	41,671
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	37,871	25,571
* 05/25/06 and 04/12/11.			2,160,648	2,285,735

K P H I Holdings, Inc.

A manufacturer of highly engineered plastic and metal components for a diverse range of end-markets, including medical, consumer and industrial, automotive and defense.

15% Senior Subordinated Note due 2017	\$ 909,583	12/10/10	895,135	929,655
Common Stock (B)	232,826 shs.	12/10/10	232,826	173,346
			1,127,961	1,103,001

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Value
<b>K P I Holdings, Inc.</b>				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
12.75% Senior Subordinated Note due 2015	\$ 1,425,140	07/16/08	\$ 1,355,451	\$ 1,353,883
Convertible Preferred Stock Series C (B)	29 shs.	06/30/09	29,348	58,000
Convertible Preferred Stock Series D (B)	13 shs.	09/17/09	12,958	38,880
Common Stock (B)	235 shs.	07/15/08	234,783	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	-	-
			1,683,376	1,450,763
<b>K W P I Holdings Corporation</b>				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
12% Senior Subordinated Note due 2015 (D)	\$ 1,674,246	03/14/07	1,523,455	-
Preferred Stock PIK (B)	793 shs.	02/07/11	306,750	-
Common Stock (B)	123 shs.	03/13/07	123,000	-
Warrant, exercisable until 2019, to purchase preferred stock at \$.01 per share (B)	71 shs.	07/07/09	-	-
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)	89 shs.	03/14/07	85,890	-
			2,039,095	-
<b>LPC Holding Company</b>				
A designer and manufacturer of precision-molded silicone rubber components that are utilized in the medical and automotive end markets.				
13.5% Senior Subordinated Note due 2018	\$ 1,157,755	08/15/11	1,137,155	1,180,911

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Common Stock (B)	105 shs.	08/15/11	105,019	88,259
			1,242,174	1,269,170

M V I Holding, Inc.

A manufacturer of large precision machined metal components used in equipment which services a variety of industries, including the oil and gas, mining, and defense markets.

Common Stock (B)	32 shs.	09/12/08	32,143	65,047
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	09/12/08	34,714	70,249
			66,857	135,296

Mail Communications Group, Inc.

A provider of mail processing and handling services, lettershop services, and commercial printing services.

Limited Liability Company Unit (B)	12,764 uts.	*	166,481	241,089
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	1,787 shs.	05/04/07	22,781	33,755
* 05/04/07 and 01/02/08.			189,262	274,844

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Manhattan Beachwear Holding Company</b>				
A designer and distributor of women's swimwear.				
12.5% Senior Subordinated Note due 2018	\$ 419,971	01/15/10	\$ 378,099	\$ 419,971
15% Senior Subordinated Note due 2018	\$ 107,618	10/05/10	105,882	106,231
Common Stock (B)	35 shs.	10/05/10	35,400	56,491
Common Stock Class B (B)	118 shs.	01/15/10	117,647	187,744
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	01/15/10	94,579	166,153
			731,607	936,590
<b>Marshall Physicians Services LLC</b>				
A provider of emergency department and hospital medicine services to hospitals located in the state of Kentucky. The Company was founded in 1999 and is owned by seven practicing physicians.				
13% Senior Subordinated Note due 2016	\$444,540	09/20/11	436,651	456,885
Limited Liability Company Unit Class A (B)	2,900 uts.	09/20/11	60,000	35,460
Limited Liability Company Unit Class D (B)	291 uts.	09/20/11	-	3,564
			496,651	495,909
<b>MBWS Ultimate Holdco, Inc.</b>				
A provider of services throughout North Dakota that address the fluid management and related transportation needs of an oil well.				
12% Senior Subordinated Note due 2016	\$ 1,117,495	*	1,035,440	1,128,670
Preferred Stock Series A (B)	1,388 shs.	09/07/10	138,797	522,640
Common Stock (B)	162 shs.	03/01/11	16,226	61,000
Common Stock (B)	153 shs.	09/07/10	15,282	57,611
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	103 shs.	03/01/11	10,325	38,784
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	386 shs.	09/07/10	38,623	145,345
* 09/07/10 and 03/01/11.			1,254,693	1,954,050
<b>MedSystems Holdings LLC</b>				
A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.				
13% Senior Subordinated Note due 2015	\$633,199	08/29/08	589,932	633,199
Preferred Unit (B)	66 uts.	08/29/08	66,451	90,065
Common Unit Class A (B)	671 uts.	08/29/08	671	8,998
Common Unit Class B (B)	250 uts.	08/29/08	63,564	3,348
			720,618	735,610



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>MEGTEC Holdings, Inc.</b>				
A supplier of industrial and environmental products and services to a broad array of industries.				
Preferred Stock (B)	56 shs.	09/24/08	\$ 54,040	\$ 78,400
Limited Partnership Interest (B)	0.74% int.	09/16/08	205,932	244,416
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	18 shs.	09/24/08	18,237	13,635
			278,209	336,451
<b>Merex Holding Corporation</b>				
A provider of after-market spare parts and components, as well as Maintenance, Repair and Overhaul services for “out of production” or “legacy” aerospace and defense systems that are no longer effectively supported by the original equipment manufacturers.				
14% Senior Subordinated Note due 2018	\$ 424,528	09/22/11	416,821	437,264
Limited Liability Company Unit Series B (B)	155,945 uts.	09/22/11	155,945	-
			572,766	437,264
<b>MicroGroup, Inc.</b>				
A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.				
12% Senior Subordinated Note due 2013 (D)	\$ 1,421,795	*	1,364,411	355,449
Common Stock (B)	238 shs.	*	238,000	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	87 shs.	*	86,281	-
			1,688,692	355,449
* 08/12/05 and 09/11/06.				
<b>Monessen Holding Corporation</b>				
A designer and manufacturer of a broad line of gas, wood, and electric hearth products and accessories.				
15% Senior Subordinated Note due 2015 (D)	\$ 823,794	06/28/11	547,745	-
7% Senior Subordinated Note due 2014 (D)	\$ 1,350,000	06/28/11	1,281,479	-
Warrant, exercisable until 2014, to purchase	81 shs.	03/31/06	73,125	-

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common stock at \$.02 per share  
(B)

1,902,349 -

Motion Controls Holdings

A manufacturer of high performance mechanical motion control  
and linkage products.

14.25% Senior Subordinated Note  
due 2017

\$ 936,232

11/30/10

922,116

954,957

Limited Liability Company Unit  
Class B-1 (B)

93,750 uts.

11/30/10

-

83,385

Limited Liability Company Unit  
Class B-2 (B)

8,501 uts.

11/30/10

-

7,561

922,116

1,045,903

NABCO, Inc.

A producer of explosive  
containment vessels in the United  
States.

14% Senior Subordinated Note  
due 2014 (D)

\$ 330,882

02/24/06

306,091

82,720

Limited Liability Company Unit  
(B)

437 uts.

\*

436,984

-

Warrant, exercisable until 2016, to  
purchase

common stock at \$.01 per share  
(B)

68 shs.

02/24/06

19,687

-

\* 02/24/06 and 06/22/07.

762,762

82,720



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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
NetShape Technologies, Inc. A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.				
14% Senior Subordinated Note due 2014	\$1,061,463	02/02/07	\$972,522	\$955,316
Limited Partnership Interest of Saw Mill PCG Partners LLC (B)	1.38% int.	02/01/07	588,077	-
Limited Liability Company Unit Class D of Saw Mill PCG Partners LLC (B)	9 uts.	*	8,873	-
Limited Liability Company Unit Class D-1 of Saw Mill PCG Partners LLC (B)	121 uts.	09/30/09	121,160	-
Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	34,547	-
* 12/18/08 and 09/30/09.			1,725,179	955,316
Nicoat Acquisitions LLC A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications.				
12.5% Senior Subordinated Note due 2016	\$482,759	11/05/10	448,102	492,414
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	19,688
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	39,888
Limited Liability Company Unit Series F (B)	52,172 uts.	11/05/10	-	121,528
			500,274	673,518
Northwest Mailing Services, Inc. A producer of promotional materials for companies that use direct mail as part of their customer retention and loyalty programs.				
12% Senior Subordinated Note due 2016	\$ 1,492,105	*	1,290,451	1,497,467
Limited Partnership Interest (B)	1,740 uts.	*	174,006	43,580
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	2,605 shs.	*	260,479	65,238
* 07/09/09 and 08/09/10.			1,724,936	1,606,285
NT Holding Company A leading developer, manufacturer and provider of medical products used primarily in interventional pain management.				
12% Senior Subordinated Note due 2019	\$ 883,117	02/02/11	821,861	900,779
Common Stock (B)	126 shs.	*	125,883	109,176

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Warrant, exercisable until 2021, to  
purchase

common stock at \$.01 per share (B)	59 shs.	02/02/11	52,987	50,954
* 02/02/11 and 06/30/11.			1,000,731	1,060,909

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>O E C Holding Corporation</b>				
A provider of elevator maintenance, repair and modernization services.				
13% Senior Subordinated Note due 2017	\$444,445	06/04/10	\$413,362	\$443,455
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	21,510
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	12,095
Common Stock (B)	344 shs.	06/04/10	344	-
			500,185	477,060
<b>Ontario Drive &amp; Gear Ltd.</b>				
A manufacturer of all-wheel drive, off-road amphibious vehicles and related accessories.				
Limited Liability Company Unit (B)	1,942 uts.	01/17/06	302,885	793,840
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	328 shs.	01/17/06	90,424	134,029
			393,309	927,869
<b>P K C Holding Corporation</b>				
A manufacturer of plastic film and badges for the general industrial, medical, and food industries.				
14% Senior Subordinated Note due 2016	\$1,608,562	12/21/10	1,581,430	1,640,733
Preferred Stock Class A (B)	29 shs.	12/21/10	180,380	274,388
Common Stock (B)	29 shs.	12/21/10	13,500	-
			1,775,310	1,915,121
<b>P P T Holdings LLC</b>				
A high-end packaging solutions provider that targets customers who have multiple packaging needs, require a high number of low volume SKUs, short lead times, technical expertise, and overall supply chain management.				
15% Senior Subordinated Note due 2017	\$942,279	12/20/10	927,458	941,602
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	72,456
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	1,072	72,456
			1,034,601	1,086,514
<b>Pacific Consolidated Holdings LLC</b>				
A manufacturer of rugged, mobile liquid and gaseous oxygen and nitrogen generating systems used in the global defense, oil and gas, and medical sectors.				
14% Senior Subordinated Note due 2012 (D)	\$ 737,784	04/27/07	719,555	258,224
5% Senior Subordinated Note due 2012	\$ 42,187	07/21/10	42,187	42,187
Preferred Shares Series E (B)	42,187 uts.	07/21/10	-	-
Limited Liability Company Unit (B)	928,962 uts.	04/27/07	33,477	-
			795,219	300,411
<b>Paradigm Packaging, Inc.</b>				
12% Senior Subordinated Note due 2015	\$ 843,750	12/19/00	841,998	843,750

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Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	197 shs.	12/21/00	140,625	-
			982,623	843,750

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Pearlman Enterprises, Inc.</b>				
A developer and distributor of tools, equipment and supplies to the natural and engineered stone industry.				
Preferred Stock Series A (B)	1,236 shs.	05/22/09	\$ 59,034	\$ -
Preferred Stock Series B (B)	7,059 shs.	05/22/09	290,050	-
Common Stock (B)	21,462 shs.	05/22/09	993,816	-
			1,342,900	-
<b>Postle Aluminum Company LLC</b>				
A manufacturer and distributor of aluminum extruded products.				
15% Senior Subordinated Note due 2013	\$ 868,366	06/03/10	862,244	868,366
3% Senior Subordinated PIK Note due 2014	\$ 1,209,017	10/02/06	1,105,524	1,209,017
Limited Liability Company Unit Class A (B)	733 uts.	10/02/06	270,000	64,831
Limited Liability Company Unit (B)	76 uts.	05/22/09	340	6,724
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	4,550 shs.	10/02/06	65,988	402,600
			2,304,096	2,551,538
<b>Precision Wire Holding Company</b>				
A manufacturer of specialty medical wires that are used in non-elective minimally invasive surgical procedures.				
14.25% Senior Subordinated Note due 2016	\$ 1,409,674	11/12/09	1,311,075	1,437,868
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	109 shs.	11/12/09	107,970	117,772
			1,419,045	1,555,640
<b>Qualis Automotive LLC</b>				
A distributor of aftermarket automotive brake and chassis products.				
Common Stock (B)	187,500 shs.	05/28/04	187,500	301,688
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	199,969 shs.	05/28/04	199,969	321,751
			387,469	623,439
<b>R A J Manufacturing Holdings LLC</b>				
A designer and manufacturer of women's swimwear sold under a variety of licensed brand names.				
12.5% Senior Subordinated Note due 2014	\$ 747,145	12/15/06	723,655	747,145
Limited Liability Company Unit (B)	1,497 uts.	12/15/06	149,723	66,851
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	2 shs.	12/15/06	69,609	31,547
			942,987	845,543



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>RM Holding Company</b>				
A specialty distributor of home medical care equipment.				
13% Senior Subordinated Note due 2018	\$460,318	02/09/12	\$434,064	\$472,655
Common Stock (B)	369 shs.	02/09/12	4	35,829
Preferred Stock Series (B)	39,679 shs.	02/09/12	39,678	41,258
Warrant, exercisable until 2022, to purchase preferred stock A at \$.01 per share (B)	12,088 shs.	02/09/12	11,980	12,472
Warrant, exercisable until 2022, to purchase preferred stock B at \$.01 per share (B)	7,067 shs.	02/09/12	7,067	7,349
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	185 shs.	02/09/12	-	17,965
			492,793	587,528
<b>Royal Baths Manufacturing Company</b>				
A manufacturer and distributor of acrylic and cultured marble bathroom products.				
12.5% Senior Subordinated Note due 2016	\$281,250	11/14/03	277,125	281,250
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	74 shs.	11/14/03	65,089	51,011
			342,214	332,261
<b>Safety Infrastructure Solutions</b>				
A provider of trench safety equipment to a diverse customer base across multiple end markets in Texas and the Southwestern United States.				
15% Senior Subordinated Note due 2018	\$656,250	03/30/12	646,933	684,486
Preferred Stock Series (B)	2,098 shs.	03/30/12	83,920	85,904
Common Stock (B)	983 shs.	03/30/12	9,830	16,740
			740,683	787,130
<b>Sencore Holding Company</b>				
A designer, manufacturer, and marketer of decoders, receivers and modulators sold to broadcasters, satellite, cable and telecom operators for encoding/decoding analog and digital transmission video signals.				
12.5% Senior Subordinated Note due 2014 (D)	\$1,157,231	01/15/09	826,004	-
<b>Smart Source Holdings LLC</b>				
A short-term computer rental company.				
12% Senior Subordinated Note due 2015	\$1,176,924	*	1,121,846	1,176,924
Limited Liability Company Unit (B)	328 uts.	*	334,371	323,446
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	83 shs.	*	87,231	81,929
			1,543,448	1,582,299

\* 08/31/07 and 03/06/08.





CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
<b>Snacks Parent Corporation</b>				
The world's largest provider of trail mixes and a leading provider of snack nuts, dried fruits, and other healthy snack products.				
13% Senior Subordinated Note due 2017	\$885,129	11/12/10	\$842,506	\$863,856
Preferred Stock A (B)	1,132 shs.	11/12/10	107,498	104,195
Preferred Stock B (B)	525 shs.	11/12/10	49,884	48,351
Common Stock (B)	6,579 shs.	11/12/10	6,579	-
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	1,806 shs.	11/12/10	1,806	-
			1,008,273	1,016,402
<b>SouthernCare Holdings, Inc.</b>				
A hospice company providing palliative care services to terminally ill patients.				
14% Senior Subordinated Note due 2018	\$924,334	12/01/11	907,683	949,727
Common Stock (B)	909 shs.	12/01/11	90,909	78,264
			998,592	1,027,991
<b>Spartan Foods Holding Company</b>				
A manufacturer of branded pizza crusts and pancakes.				
14.25% Senior Subordinated PIK Note due 2017	\$1,200,671	12/15/09	1,066,535	1,140,637
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	136 shs.	12/15/09	120,234	30,110
			1,186,769	1,170,747
<b>Specialty Commodities, Inc.</b>				
A distributor of specialty food ingredients.				
Common Stock (B)	15,882 shs.	10/23/08	158,824	109,381
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	5,852 shs.	10/23/08	53,285	40,303
			212,109	149,684
<b>Strata/WLA Holding Corporation</b>				
A leading independent anatomic pathology laboratory that conducts over 320,000 tests annually to customers in 40 U.S. states and in Canada and Venezuela.				
14.5% Senior Subordinated Note due 2018	\$953,191	07/01/11	936,831	961,328
Preferred Stock Series A (B)	76 shs.	07/01/11	76,046	39,067
			1,012,877	1,000,395
<b>Sundance Investco LLC</b>				
A provider of post-production services to producers of movies and television shows.				
Limited Liability Company Unit Class A (B)	3,405 shs.	03/31/10	-	-



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Sunrise Windows Holding Company</b>				
A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.				
12% Senior Subordinated Note due 2017	\$997,437	12/14/10	\$949,794	\$972,678
14% Senior Subordinated PIK Note due 2017	\$76,114	08/17/12	72,655	74,225
Common Stock (B)	38 shs.	12/14/10	38,168	13,546
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37 shs.	12/14/10	37,249	13,219
			1,097,866	1,073,668
<b>Synteract Holdings Corporation</b>				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
14.5% Senior Subordinated Note due 2017	\$1,423,906	09/02/08	1,361,171	1,423,906
Redeemable Preferred Stock Series A (B)	678 shs.	09/02/08	6,630	17,908
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6,778 shs.	09/02/08	59,661	-
			1,427,462	1,441,814
<b>T H I Acquisition, Inc.</b>				
A machine servicing company providing value-added steel services to long steel products.				
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	5 shs.	01/14/08	46,617	206,909
<b>Terra Renewal LLC</b>				
A provider of wastewater residual management and required environmental reporting, permitting, nutrient management planning and record keeping to companies involved in poultry and food processing.				
12% Senior Subordinated Note due 2014 (D)	\$664,062	*	644,369	-
7.44% Term Note due 2013 (C)	\$709,301	08/10/12	709,301	602,905
9.25% Term Note due 2013 (C)	\$945	08/31/12	945	803
7.32% Term Note due 2013 (C)	\$2,061	09/10/12	2,061	1,752
Common Stock Class B	32 shs.	*	4,448	-
Limited Partnership Interest of Saw Mill Capital Fund V, LLC (B)	2.27% int.	**	117,464	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	41 shs.	04/28/06	33,738	-
* 04/28/06 and 09/13/06.			1,512,326	605,460
** 03/01/05 and 10/10/08.				



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
Torrent Group Holdings, Inc.				
A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow.				
14.5% Senior Subordinated Note due 2014 (D)	\$1,300,003	10/26/07	\$1,136,835	\$1,235,003
Series B Preferred Stock (B)	97 shs.	03/31/10	-	713
Common Stock (B)	273 shs.	03/31/10	219,203	-
			1,356,038	1,235,716
Transpac Holding Company				
A designer, importer, and wholesaler of home décor and seasonal gift products.				
12% Senior Subordinated Note due 2015	\$938,651	10/31/07	890,159	948,038
Common Stock (B)	110 shs.	10/31/07	110,430	28,724
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	50 shs.	10/31/07	46,380	12,969
			1,046,969	989,731
Tranzonic Companies (The)				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
13% Senior Subordinated Note due 2015	\$542,400	02/05/98	540,720	542,400
Common Stock (B)	315 shs.	02/04/98	315,000	346,692
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	222 shs.	02/05/98	184,416	244,335
			1,040,136	1,133,427
Truck Bodies & Equipment International				
A designer and manufacturer of accessories for heavy and medium duty trucks, primarily dump bodies, hoists, various forms of flat-bed bodies, landscape bodies and other accessories.				
12% Senior Subordinated Note due 2013	\$ 1,222,698	*	1,154,328	1,192,610
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	105,708
Common Stock (B)	393 shs.	*	423,985	-
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	81 shs.	*	84,650	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	558 shs.	10/20/08	-	-
* 07/19/05 and 12/22/05.			1,790,640	1,298,318
TruStile Doors, Inc.				
A manufacturer and distributor of interior doors.				
Limited Liability Company Unit	5,888 uts.	02/28/11	125,000	173,696
Warrant, exercisable until 2013, to purchase				

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common stock at \$.01 per share (B)	3,060 shs.	04/11/03	36,032	15,334
			161,032	189,030

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
U-Line Corporation				
A manufacturer of high-end, built-in, undercounter ice making, wine storage and refrigeration appliances.				
Common Stock (B)	96 shs.	04/30/04	\$96,400	\$81,873
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	122 shs.	04/30/04	112,106 208,506	103,615 185,488
U M A Enterprises, Inc.				
An importer and wholesaler of home décor products.				
Convertible Preferred Stock (B)	470 shs.	02/08/08	469,565	760,487
Visioneering, Inc.				
A designer and manufacturer of tooling and fixtures for the aerospace industry.				
10.5% Senior Secured Term Loan due 2013	\$414,706	05/17/07	413,887	406,085
13% Senior Subordinated Note due 2014	\$370,588	05/17/07	357,356	359,482
18% PIK Convertible Preferred Stock (B)	21,361 shs.	03/13/09	41,440	-
Common Stock (B)	70,588 shs.	05/17/07	70,588	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	20,003 shs.	05/17/07	31,460 914,731	- 765,567
Vitex Packaging Group, Inc.				
A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.				
10% Senior Subordinated PIK Note due 2012	\$109,201	10/29/09	108,987	108,210
5% Senior Subordinated PIK Note due 2012 (D)	\$476,866	06/30/07	448,243	476,066
Class B Unit (B)	406,525 uts.	10/29/09	184,266	-
Class C Unit (B)	450,000 uts.	10/29/09	413,244	389,066
Limited Liability Company Unit Class A (B)	383,011 uts.	*	229,353	-
Limited Liability Company Unit Class B (B)	96,848 uts.	07/19/04	96,848	-
* 07/19/04 and 10/29/09.			1,480,941	973,342
Wellborn Forest Holding Company				
A manufacturer of semi-custom kitchen and bath cabinetry.				
12.13% Senior Subordinated Note due 2014	\$911,250	11/30/06	867,531	820,125
Common Stock (B)	101 shs.	11/30/06	101,250	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	51 shs.	11/30/06	45,790 1,014,571	- 820,125

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
September 30, 2012  
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Wheaton Holding Corporation A distributor and manufacturer of laboratory supply products and packaging.				
Preferred Stock Series B (B)	703 shs.	06/08/10	\$ 70,308	\$ 72,518
Common Stock (B)	353 shs.	06/08/10	353	36,364
			70,661	108,882
Whitcraft Holdings, Inc. A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components.				
12% Senior Subordinated Note due 2018	\$ 794,521	12/16/10	738,692	810,411
Common Stock (B)	205 shs.	12/16/10	205,480	167,785
Warrant, exercisable until 2018, to purchase common stock at \$.02 per share (B)	55 shs.	12/16/10	49,334	45,090
			993,506	1,023,286
Workplace Media Holding Company A direct marketer specializing in providing advertisers with access to consumers in the workplace.				
13% Senior Subordinated Note due 2015 (D)	\$ 654,247	05/14/07	601,454	-
Limited Partnership Interest (B) 12.26% int.		05/14/07	61,308	-
Warrant, exercisable until 2015, to purchase common stock at \$.02 per share (B)	47 shs.	05/14/07	44,186	-
			706,948	-
WP Supply Holding Corporation A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest.				
14.5% Senior Subordinated Note due 2018	\$ 869,526	11/03/11	853,857	877,579
Common Stock (B)	1,500 shs.	11/03/11	150,000	105,844
			1,003,857	983,423

Total Private Placement  
Investments (E)

\$ 106,946,713 \$ 95,717,951

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Interest Rate	Due Date	Shares or Principal Amount	Cost	Market Value
Rule 144A Securities - 6.71%:					
Bonds 6.71%					
ArcelorMittal	6.125	% 06/01/18	\$500,000	\$514,888	496,725
Ashland Inc.	4.750	08/15/22	500,000	500,000	511,250
Avaya, Inc.	7.000	04/01/19	500,000	501,159	465,000
Calumet Specialty Products Partners L.P.	9.625	08/01/20	500,000	491,138	538,750
Cequel Communications Holdings I LLC	8.625	11/15/17	500,000	521,766	533,750
Coffeyville Resources LLC	9.000	04/01/15	26,000	25,929	27,755
Continental Resources, Inc.	5.000	09/15/22	500,000	511,756	522,500
Everest Acquisition LLC/Everest Acquisition Finance, Inc.	9.375	05/01/20	500,000	508,521	545,000
First Data Corporation	7.375	06/15/19	250,000	250,000	257,812
FMG Resources	7.000	11/01/15	250,000	257,658	248,750
Hilcorp Energy Company	7.625	04/15/21	325,000	311,406	357,500
J.B. Poindexter Co., Inc.	9.000	04/01/22	500,000	500,000	500,000
MEG Energy Corporation	6.375	01/30/23	500,000	500,000	533,750
Peabody Energy Corporation	6.000	11/15/18	500,000	500,609	500,000
Penske Corporation	4.875	07/11/22	500,000	497,914	499,119
Samson Investment Company	9.750	02/15/20	350,000	344,042	360,500
ServiceMaster Company	7.000	08/15/20	500,000	500,000	512,500
Unit Corporation	6.625	05/15/21	500,000	493,848	516,250
Valeant Pharmaceuticals International	7.000	10/01/20	250,000	250,823	263,125
Welltec A/S	8.000	02/01/19	375,000	367,832	390,000
Total Bonds				8,349,289	8,580,036
Convertible Preferred Stock - 0.00%					
ETEX Corporation (B)			194	-	-
Total Convertible Preferred Stock				-	-
Preferred Stock - 0.00%					
TherOX, Inc. (B)			26	-	-
Total Preferred Stock				-	-
Common Stock - 0.00%					
Touchstone Health Partnership (B)			292	-	-
Total Common Stock				-	-
Total Rule 144A Securities				8,349,289	8,580,036
Total Corporate Restricted Securities				\$115,296,002	\$104,297,987

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Public Securities - 21.00%: (A)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
<b>Bonds -20.98%</b>					
Accuride Corp	9.500	% 08/01/18	\$500,000	\$481,711	\$513,750
Alcoa, Inc.	6.150	08/15/20	600,000	630,533	662,140
Alere, Inc.	9.000	05/15/16	300,000	315,905	320,250
Alliant Techsystems Inc.	6.875	09/15/20	500,000	538,128	545,000
Ally Financial, Inc.	5.500	02/15/17	750,000	766,078	783,962
Alta Mesa Financial Services	9.625	10/15/18	750,000	726,568	750,000
Anglogold Holdings PLC	5.375	04/15/20	600,000	605,422	630,000
Avis Budget Car Rental	9.750	03/15/20	375,000	375,000	428,437
B E Aerospace, Inc.	6.875	10/01/20	250,000	256,851	277,500
Bank of America Corporation	5.875	01/05/21	600,000	623,771	692,207
Bill Barrett Corporation	7.000	10/15/22	500,000	479,092	513,750
Brunswick Corporation	7.125	08/01/27	500,000	504,982	506,250
C R H America, Inc.	5.300	10/15/13	500,000	479,946	520,297
Calumet Specialty Products Partners L.P.	9.375	05/01/19	375,000	350,230	403,125
CCO Holdings Capital Corporation	5.250	09/30/22	500,000	495,023	502,500
Centurytel, Inc.	5.000	02/15/15	500,000	508,365	533,199
CHC Helicopter SA	9.250	10/15/20	1,000,000	927,936	1,027,500
Chesapeake Energy Corporation	6.775	03/15/19	375,000	368,735	375,938
CIT Group, Inc.	5.000	08/15/22	500,000	500,000	520,202
Citigroup, Inc.	5.500	04/11/13	500,000	491,427	512,233
DaVita, Inc.	5.750	08/15/22	500,000	500,000	520,000
Duke Realty Limited Partnership	3.875	10/15/22	500,000	509,305	508,480
EnSCO PLC	3.250	03/15/16	600,000	598,384	640,142
Equifax, Inc.	4.450	12/01/14	500,000	508,835	529,154
GATX Corporation	4.750	05/15/15	500,000	504,417	535,430
General Electric Capital Corporation	5.500	01/08/20	500,000	498,464	591,508
Goldman Sachs Group, Inc.	4.750	07/15/13	500,000	484,176	515,908
Headwaters, Inc.	7.625	04/01/19	305,000	305,142	309,575
Health Management Association	6.125	04/15/16	250,000	256,821	272,500
HealthSouth Corporation	7.750	09/15/22	500,000	501,184	546,250
Hertz Corporation	6.750	04/15/19	220,000	216,858	232,100
International Game Technology	7.500	06/15/19	500,000	499,790	599,743
Jabil Circuit, Inc.	4.700	09/15/22	500,000	499,959	497,500
Johnson Controls, Inc.	5.500	01/15/16	500,000	444,090	573,049
Kraft Foods, Inc.	5.375	02/10/20	500,000	513,695	603,183
Masco Corporation	7.125	03/15/20	350,000	349,995	398,411
Morgan Stanley	5.500	01/26/20	500,000	497,882	544,245
NBC Universal Media LLC	5.150	04/30/20	500,000	499,425	592,541



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Public Securities (A)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
Nexeo Solutions LLC	8.375	% 03/01/18	\$20,000	\$20,000	\$19,799
Niska Gas Storage Partners LLC	8.875	03/15/18	500,000	506,100	516,250
Northern Tier Energy LLC	10.500	12/01/17	292,000	303,504	319,740
Omnova Solutions, Inc.	7.875	11/01/18	750,000	764,576	757,500
Perry Ellis International, Inc.	7.875	04/01/19	375,000	371,373	388,125
Precision Drilling Corporation	6.625	11/15/20	250,000	257,668	266,250
Qwest Diagnostic, Inc.	4.750	01/30/20	500,000	498,960	559,335
Sealed Air Corporation	7.875	06/15/17	500,000	494,604	535,000
Sprint Nextel Corporation	6.000	12/01/16	500,000	512,297	515,000
Steelcase, Inc.	6.375	02/15/21	500,000	507,672	537,227
Tech Data Corporation	3.750	09/21/17	500,000	507,436	509,031
Thermadyne Holdings Corporation	9.000	12/15/17	250,000	265,224	266,250
Time Warner Cable, Inc.	5.000	02/01/20	500,000	492,010	579,686
Tyson Foods, Inc.	4.500	06/15/22	500,000	516,498	523,750
Weatherford International Limited	4.500	04/15/22	500,000	521,615	522,913
Total Bonds				8,349,289	8,580,036

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Public Securities (A)	Interest Rate	Due Date	Shares	Cost	Market Value
Common Stock - 0.02%					
Intrepid Potash, Inc. (B)			185	\$5,920	\$3,974
Nortek, Inc. (B)			100	1	5,473
Rue21, Inc. (B)			350	6,650	10,903
Total Common Stock				12,571	20,350
Total Corporate Public Securities				\$25,166,233	\$26,864,165
Short-Term Securities:					
	Interest Rate/Yield <sup>^</sup>	Due Date	Principal Amount	Cost	Market Value
Commercial Paper - 6.64%					
Ecolab, Inc.	0.370	% 10/05/12	\$2,250,000	\$2,250,000	\$2,250,000
Kinder Morgan Energy Partners, L.P.	0.450	10/04/12	2,000,000	1,999,925	1,999,925
WPP CP Finance Plc	0.470	10/02/12	2,000,000	1,999,974	1,999,974
Xstrata Finance Canada Limited	0.450	10/03/12	2,250,000	2,249,944	2,249,944
Total Short-Term Securities				\$8,499,843	\$8,499,843
Total Investments	109.18	%		\$148,962,078	\$139,661,995
Other Assets	4.27				5,461,903
Liabilities	(13.45	)			(17,203,805)
Total Net Assets	100.00	%			\$127,920,093

(A) In each of the convertible note, warrant, and common stock investments, the issuer has agreed to provide certain registration rights.

(B) Non-income producing security.

(C) Variable rate security; rate indicated is as of September 30, 2012.

(D) Defaulted security; interest not accrued.

(E) Illiquid security. As of September 30, 2012, the values of these securities amounted to \$95,717,951 or 74.83% of net assets.

<sup>^</sup> Effective yield at purchase

PIK-Payment-in-kind



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Industry Classification:	Fair Value/ Market Value	Fair Value/ Market Value
AEROSPACE - 2.59%		BUILDINGS & REAL ESTATE - 1.70%
A E Company, Inc.	\$ 260,028	Duke Realty Limited Partnership
Alliant Techsystems Inc.	545,000	K W P I Holdings Corporation
B E Aerospace, Inc.	277,500	Masco Corporation
Merex Holding Corporation	437,264	Sunrise Windows Holding Company
Visioneering, Inc.	765,567	TruStile Doors, Inc.
Whitcraft Holdings, Inc.	1,023,286	
	3,308,645	
AUTOMOBILE - 5.71%		CHEMICAL, PLASTICS & RUBBER - 1.96%
Accuride Corp	513,750	Ashland Inc.
Avis Budget Car Rental	428,437	Capital Specialty Plastics, Inc.
DPL Holding Corporation	1,290,126	Nicoat Acquisitions LLC
F H Equity LLC	530,887	Omnova Solutions, Inc.
J A C Holding Enterprises, Inc.	845,514	
Jason Partners Holdings LLC	25,511	CONSUMER PRODUCTS - 9.39%
Johnson Controls, Inc.	573,049	Baby Jogger Holdings LLC
K & N Parent, Inc.	1,049,861	Bravo Sports Holding Corporation
Ontario Drive & Gear Ltd.	927,869	Custom Engineered Wheels, Inc.
Penske Corporation	499,119	Ecolab, Inc.
		Handi Quilter Holding Company
Qualis Automotive LLC	623,439	K N B Holdings Corporation
	7,307,562	Manhattan Beachwear Holding Company
BEVERAGE, DRUG & FOOD - 5.68%		Perry Ellis International, Inc.
Eatem Holding Company	1,101,126	R A J Manufacturing Holdings LLC
F F C Holding Corporation	1,200,485	
Golden County Foods Holding, Inc.	-	Tranzonic Companies (The) WP Supply Holding Corporation
Hospitality Mints Holding Company	1,498,230	
Kraft Foods, Inc.	603,183	
Snacks Parent Corporation	1,016,402	CONTAINERS, PACKAGING & GLASS - 4.35%
	1,170,747	Flutes, Inc.

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Spartan Foods Holding Company			
Specialty Commodities, Inc.	149,684	P K C Holding Corporation	1,915,121
Tyson Foods, Inc.	523,750	P P T Holdings LLC	1,086,514
	7,263,607	Paradigm Packaging, Inc.	843,750
BROADCASTING & ENTERTAINMENT - 0.92%		Sealed Air Corporation	535,000
HOP Entertainment LLC	-	Vitex Packaging Group, Inc.	973,342
NBC Universal Media LLC	592,541		5,563,643
Time Warner Cable, Inc.	579,686		
Sundance Investco LLC	-		
Workplace Media Holding Company	-		
	1,172,227		

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
		DIVERSIFIED/CONGLOMERATE, SERVICE -	
DISTRIBUTION - 2.65%		11.45%	
Duncan Systems, Inc.	\$ 645,775	A S C Group, Inc.	\$ 1,735,847
F C X Holdings Corporation	2,155,340	A W X Holdings Corporation	378,000
RM Holding Company	587,528	Advanced Technologies Holdings	710,136
	3,388,643	Anglogold Holdings PLC	630,000
DIVERSIFIED/CONGLOMERATE,		Apex Analytix Holding Corporation	1,155,263
MANUFACTURING - 12.71%		Associated Diversified Services	665,875
A H C Holding Company, Inc.	1,591,563	Bank of America Corporation	692,207
Arrow Tru-Line Holdings, Inc.	895,921	C R H America, Inc.	520,297
C D N T, Inc.	702,637	Church Services Holding Company	614,326
F G I Equity LLC	722,545	Clough, Harbour and Associates	90,972
G C Holdings	1,286,803	Crane Rental Corporation	1,193,511
HGGC Citadel Plastics Holding	1,020,730	ELT Holding Company	1,003,089
Ideal Tridon Holdings, Inc.	1,045,492	Equipfax, Inc.	529,154
J.B. Poindexter Co., Inc.	500,000	HVAC Holdings, Inc.	1,243,291
K P H I Holdings, Inc.	1,103,001	Insurance Claims Management, Inc.	287,519
K P I Holdings, Inc.	1,450,763	Mail Communications Group, Inc.	274,844
LPC Holding Company	1,269,170	Nexeo Solutions LLC	19,799
MEGTEC Holdings, Inc.	336,451	Northwest Mailing Services, Inc.	1,606,285
Nortek, Inc.	5,473	Pearlman Enterprises, Inc.	-
O E C Holding Corporation	477,060	Safety Infrastructure Solutions	787,130
Postle Aluminum Company LLC	2,551,538	ServiceMaster Company	512,500
Truck Bodies & Equipment International	1,298,318		14,650,045
	16,257,465	ELECTRONICS - 2.16%	
		Barcodes Group, Inc.	905,799
		Connecticut Electric, Inc.	857,851
		Jabil Circuit, Inc.	497,500
		Tech Data Corporation	509,031
			2,770,181



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value
FINANCIAL SERVICES - 8.01%		HOME & OFFICE FURNISHINGS, HOUSEWARES, AND
Ally Financial, Inc.	\$ 783,962	DURABLE CONSUMER PRODUCTS - 4.16%
Alta Mesa Financial Services	750,000	Connor Sport Court International, Inc.
CIT Group, Inc.	520,202	H M Holding Company
Citigroup, Inc.	512,233	Home Décor Holding Company
DPC Holdings LLC	1,244,007	Monessen Holding Corporation
GATX Corporation	535,430	Royal Baths Manufacturing Company
General Electric Capital Corporation	591,508	Steelcase, Inc.
Goldman Sachs Group, Inc.	515,908	Transpac Holding Company
Morgan Stanley	544,245	U-Line Corporation
WPP CP Finance Plc	1,999,974	U M A Enterprises, Inc.
Xstrata Finance Canada Limited	2,249,944 10,247,413	Wellborn Forest Holding Company
HEALTHCARE, EDUCATION & CHILDCARE - 7.74%		820,125 5,319,635
Alere, Inc.	320,250	LEISURE, AMUSEMENT, ENTERTAINMENT - 0.86%
American Hospice Management Holding LLC	2,117,566	Brunswick Corporation
CHG Alternative Education Holding Company	997,564	International Game Technology
DaVita, Inc.	520,000	MACHINERY - 5.54%
Healthcare Direct Holding Company	764,249	A S A P Industries LLC
HealthSouth Corporation	546,250	ABC Industries, Inc.
Marshall Physicians Services LLC	495,909	Arch Global Precision LLC
Qwest Diagnostic, Inc.	559,335	E S P Holdco, Inc.
SouthernCare Holdings, Inc.	1,027,991	M V I Holding, Inc.
Strata/WLA Holding Corporation	1,000,395	Motion Controls Holdings
Synteract Holdings Corporation	1,441,814	NetShape Technologies, Inc.
Touchstone Health Partnership	-	Pacific Consolidated Holdings LLC
Wheaton Holding Corporation	108,882	Thermadyne Holdings Corporation
		266,250 390,000

9,900,205		7,081,641
	MEDICAL	
	DEVICES/BIOTECH - 3.72%	
	Coeur, Inc.	771,609
	E X C Acquisition Corporation	14,003
	ETEX Corporation	-
	Health Management	
	Association	272,500
	MedSystems Holdings LLC	735,610
	MicroGroup, Inc.	355,449
	NT Holding Company	1,060,909
	Precision Wire Holding	
	Company	1,555,640
	TherOX, Inc.	-
		4,765,720

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 September 30, 2012  
 (Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
MINING, STEEL, IRON & NON-PRECIOUS METALS - 1.26%		TECHNOLOGY - 1.80%	
Alcoa, Inc.	\$ 662,140	Avaya, Inc.	\$ 465,000
FMG Resources	248,750	First Data Corporation	257,812
Peabody Energy Corporation	500,000	Sencore Holding Company	-
THI Acquisition, Inc.	206,909	Smart Source Holdings LLC	1,582,299
	1,617,799	TELECOMMUNICATIONS - 2.23%	
NATURAL RESOURCES - 2.20%		All Current Holding Company	770,197
ArcelorMittal	496,725	CCO Holdings Capital Corporation	502,500
Headwaters, Inc.	309,575	Centurytel, Inc.	533,199
Intrepid Potash, Inc.	3,974	Cequel Communications Holdings I LLC	533,750
Kinder Morgan Energy Partners, L.P.	1,999,925	Sprint Nextel Corporation	515,000
	2,810,199		2,854,646
OIL & GAS - 7.23%		TRANSPORTATION - 1.05%	
Bill Barrett Corporation	513,750	CHC Helicopter SA	1,027,500
Calumet Specialty Products Partners L.P.	941,875	Hertz Corporation	232,100
Chesapeake Energy Corporation	375,938	NABCO, Inc.	82,720
Coffeyville Resources LLC	27,755		1,342,320
Continental Resources, Inc.	522,500	WASTE MANAGEMENT / POLLUTION - 1.44%	
EnSCO PLC	640,142	Terra Renewal LLC	605,460
Everest Acquisition LLC/Everest Acquisition Finance, Inc.	545,000	Torrent Group Holdings, Inc.	1,235,716
Hilcorp Energy Company	357,500		1,841,176
International Offshore Services LLC	337,500		
MBWS Ultimate Holdco, Inc.	1,954,050	Total Investments - 109.18%	\$ 139,661,995
MEG Energy Corporation	533,750		
Niska Gas Storage Partners LLC	516,250		
Northern Tier Energy LLC	319,740		
Precision Drilling Corporation	266,250		
Samson Investment Company	360,500		
Unit Corporation	516,250		
Weatherford International Limited	522,913		
	9,251,663		
PHARMACEUTICALS - 0.66%			
CorePharma LLC	575,888		
Valeant Pharmaceuticals International	263,125		
	839,013		
RETAIL STORES - 0.01%			
Rue21, Inc.	10,903		

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)  
 September 30, 2012  
 (Unaudited)

Babson Capital Participation Investors

1. History

Babson Capital Participation Investors (the “Trust”) was organized as a Massachusetts business trust under the laws of the Commonwealth of Massachusetts pursuant to a Declaration of Trust dated April 7, 1988. Effective December 16, 2011, the Trust’s name was changed to Babson Capital Participation Investors. Prior to December 16, 2011, the Trust’s name was MassMutual Participation Investors.

The Trust is a diversified closed-end management investment company. Babson Capital Management LLC (“Babson Capital”), a wholly-owned indirect subsidiary of Massachusetts Mutual Life Insurance Company (“MassMutual”), acts as its investment adviser. The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as common stock, warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay capital. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

On January 27, 1998, the Board of Trustees authorized the formation of a wholly-owned subsidiary of the Trust (“PI Subsidiary Trust”) for the purpose of holding certain investments. The results of the PI Subsidiary Trust are consolidated in the accompanying financial statements. Footnote 2.D below discusses the Federal tax consequences of the

Determination of Fair Value

The determination of the fair value of the Trust’s investments is the responsibility of the Trust’s Board of Trustees (the “Trustees”). The Trustees have adopted procedures for the valuation of the Trust’s securities and has delegated responsibility for determination of fair value under those procedures to Babson Capital. Babson Capital has established a Pricing Committee which is responsible for setting the guidelines used in following the procedures adopted by the Trustees ensuring that those guidelines are being followed. Babson Capital considers all relevant factors that are reasonably available, through either public information or information available to Babson Capital, when determining the fair value of a security. The Trustees meet at least once each quarter to approve the value of the Trust’s portfolio securities as of the close of business on the last business day of the preceding quarter. This valuation requires the approval of a majority of the Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital. In approving valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the procedures and guidelines referred to above, which include the relevant factors referred to below. Babson Capital has agreed to provide such reports to the Trust at least quarterly. The consolidated financial statements include private placement restricted securities valued at \$95,717,951 (74.83% of net assets) as of September 30, 2012 whose values have been estimated by the Trustees based on the process described above in the absence of readily ascertainable market values. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Following is a description of valuation methodologies used for assets recorded at fair value.

Corporate Public Securities – Corporate Bonds,  
 Preferred Stocks and Common Stocks

PI Subsidiary Trust.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed consistently by the Trust in the preparation of its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

A. Fair Value Measurements:

Under U.S. GAAP, fair value represents the price that should be received to sell an asset (exit price) in an orderly transaction between market participants at the measurement date.

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At September 30, 2012, 100% of the carrying value of these investments was from external pricing services. In the event that the primary pricing service does not provide a price, the Trust utilizes the pricing provided by a secondary pricing service.

Public debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust's pricing services use multiple valuation techniques to determine fair value. In instances where significant market activity exists, the pricing services may utilize a market based approach through which quotes from market makers are used to determine fair value. In instances where significant market activity may not

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Babson Capital Participation  
Investors

(Unaudited)

exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal underlying prepayments, collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

Public equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sales price of that day.

Annually, Babson Capital conducts reviews of the primary pricing vendors to validate that the inputs used in that vendors' pricing process are deemed to be market observable as defined in the standard. While Babson Capital is not provided access to proprietary models of the vendors, the reviews have included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. The review also included an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process Babson Capital continues to perform annually. In addition, the pricing vendors have an established challenge process in place for all security valuations, which facilitates identification and resolution of prices that fall outside expected ranges. Babson Capital believes that the prices received from the pricing vendors are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are

To estimate a company's enterprise value, the company's trailing twelve months earnings before interest, taxes, depreciation and amortization ("EBITDA") is multiplied by a valuation multiple.

Both the company's EBITDA and valuation multiple are considered significant unobservable inputs. Significant increases/(decreases) to the company's trailing twelve months EBITDA and/or the valuation multiple would result in significant increases/(decreases) to the equity value.

**Short-Term Securities**

Short-term securities, of sufficient credit quality, with more than sixty days to maturity are valued at fair value, using external independent third-party services. Short-term securities having a maturity of sixty days or less are valued at amortized cost, which approximates fair value.

**Quantitative Information about Level 3 Fair Value Measurements**

The following table represents quantitative information about Level 3 fair value measurements as of September 30, 2012.

classified appropriately in the hierarchy.

		Valuation Technique	Unobservable Inputs	Range
Corporate Restricted Securities – Corporate Bonds	Corporate Bonds	Discounted Cash Flows	Discount Rate	5.7% to 15.5 %
The fair value of certain notes is determined using an internal model that discounts the anticipated cash flows of those notes using a specific discount rate. Changes to that discount rate are driven by changes in general interest rates, probabilities of default and credit adjustments. The discount rate used within the models to discount the future anticipated cash flows is considered a significant unobservable input. Significant increases/(decreases) in the discount rate would result in a significant (decrease)/increase to the notes fair value.	Equity Securities	Market Approach	Valuation Multiple	1.9x to 10.0 x
			Discount for lack of marketability	0% to 5 %

The fair value of certain distressed notes is based on an enterprise waterfall methodology which is discussed in the equity security valuation section below.

#### Fair Value Hierarchy

Corporate Restricted Securities – Common Stock, Preferred Stock and Partnerships & LLC’s

The Company categorizes its investments measured at fair value in three levels, based on the inputs and assumptions used to determine fair value. These levels are as follows:

The fair value of equity securities is determined using an enterprise waterfall methodology. Under this methodology, the enterprise value of the company is first estimated and that value is then allocated to the company’s outstanding debt and equity securities based on the documented priority of each class of securities in the capital structure.

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Trust’s own assumptions in determining the fair value of investments)

Generally, the waterfall proceeds from senior debt tranches of the capital structure to senior then junior subordinated debt, followed by each class of preferred stock and finally the common stock.

The following is a summary of the inputs used to value the Trust’s net assets as of September 30, 2012:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

(Unaudited)

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

Assets:	Total	Level 1	Level 2	Level 3
Restricted Securities				
Corporate Bonds	\$ 83,892,367	\$ -	\$ 8,580,036	\$ 75,312,331
Common Stock - U.S.	8,375,057	-	-	8,375,057
Preferred Stock	5,844,913	-	-	5,844,913
Partnerships and LLCs	6,185,650	-	-	6,185,650
Public Securities				
Corporate Bonds	26,843,815	-	26,843,815	-
Common Stock - U.S.	20,350	20,350	-	-
Short-term Securities	8,499,843	-	8,499,843	-
Total	\$ 139,661,995	\$ 20,350	\$ 43,923,694	\$ 95,717,951

See information disaggregated by security type and industry classification in the Consolidated Schedule of Investments.

There were no transfers into or out of Level 1 and Level 2 assets

Assets:	Beginning balance at 12/31/2011	Included in earnings	Purchases	Sales	Prepayments	Transfers in and/or out of Level 3	Ending balance at 09/30/2012
Restricted Securities							
Corporate Bonds	\$84,969,256	\$136,342	\$12,681,114	\$(8,617,284)	\$(13,857,097)	\$-	\$75,312,331
Common Stock - U.S.	9,972,142	2,184,851	571,390	(4,353,326)	-	-	8,375,057
Preferred Stock	5,965,999	555,312	590,872	(1,267,270)	-	-	5,844,913
Partnerships and LLCs	6,021,318	306,806	64,107	(206,581)	-	-	6,185,650
	\$106,928,715	\$3,183,311	\$13,907,483	\$(14,444,461)	\$(13,857,097)	\$-	\$95,717,951

Income, Gains and Losses included in Net Increase in Net Assets resulting from Operations for the period are presented in the following accounts on the Statement of Operations:

## B. Accounting for Investments:

Net Increase in Net Assets Resulting from Operations	Change in Unrealized Gains
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		& (Losses) in Net Assets from assets still held
Interest (Amortization)	512,849	-
Net realized gain on investments before taxes	3,807,580	-
Net change in unrealized depreciation of investments before taxes.	(1,137,119 )	1,501,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) Babson Capital Participation  
Investors  
(Unaudited)

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis, including the amortization of premiums and accretion of discounts on bonds held using the yield-to-maturity method. The Trust does not accrue income when payment is delinquent and when management believes payment is questionable.

Realized gains and losses on investment transactions and unrealized appreciation and depreciation of investments are reported for financial statement and Federal income tax purposes on the identified cost method.

C. Use of Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

D. Federal Income Taxes:

The Trust has elected to be taxed as a “regulated investment company” under the Internal Revenue Code, and intends to maintain this qualification and to distribute substantially all of its net taxable income to its shareholders. In any year when net long-term capital gains are realized by the Trust, management, after evaluating the prevailing economic conditions, will recommend that Trustees either designate the net realized long-term gains as undistributed and pay the Federal capital gains taxes thereon, or distribute all or a portion of such net gains.

The Trust is taxed as a regulated investment company and is therefore limited as to the amount of non-qualified income that it may receive as the result of operating a trade or business, e.g. the Trust’s pro rata share of income allocable to the Trust by a

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax basis. As of September 30, 2012, the PI Subsidiary Trust has a deferred tax liability of \$539,228.

Beginning with the 2009 annual financial statements, the Trust recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority’s widely understood administrative practices and precedents. If this threshold is met, the Trust measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Trust has evaluated and determined that the tax positions did not have a material effect on the Trust’s financial position and results of operations for the nine months ended September 30, 2012.

E. Distributions to Shareholders:

The Trust records distributions to shareholders from net investment income and net realized gains, if any, on the ex-dividend date. The Trust’s net investment income dividend is declared four times per year, in April, July, October, and December. The Trust’s net realized capital gain distribution, if any, is declared in December.

3. Investment Advisory and Administrative Services Contract

A. Services:

Under an Investment Advisory and Administrative Services Contract (the “Contract”) with the Trust, Babson Capital has agreed to use its best efforts to present to the Trust a continuing and suitable investment program consistent with the investment objectives and policies of the Trust. Babson Capital represents the Trust in any negotiations with issuers, investment banking firms, securities brokers or dealers and other institutions or investors relating to the Trust’s investments. Under the Contract, Babson Capital also provides administration

partnership operating company. The Trust's violation of this limitation could result in the loss of its status as a regulated investment company, thereby subjecting all of its net income and capital gains to corporate taxes prior to distribution to its shareholders. The Trust, from time-to-time, identifies investment opportunities in the securities of entities that could cause such trade or business income to be allocable to the Trust. The PI Subsidiary Trust (described in Footnote 1, above) was formed in order to allow investment in such securities without adversely affecting the Trust's status as a regulated investment company.

The PI Subsidiary Trust is not taxed as a regulated investment company. Accordingly, prior to the Trust receiving any distributions from the PI Subsidiary Trust, all of the PI Subsidiary Trust's taxable income and realized gains, including non-qualified income and realized gains, is subject to taxation at prevailing corporate tax rates. As of September 30, 2012, the PI Subsidiary Trust has incurred income tax expense of \$4,314.

of the day-to-day operations of the Trust and provides the Trust with office space and office equipment, accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

B. Fee:

For its services under the Contract, Babson Capital is paid a quarterly investment advisory fee equal to 0.225% of the value of the Trust's net assets as of the last business day of each fiscal quarter, an amount approximately equivalent to 0.90% on an annual basis. A majority of the Trustees, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital, approve the valuation of the Trust's net assets as of such day.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

(Unaudited)

4. Senior Indebtedness

MassMutual holds the Trust's \$15,000,000 Senior Fixed Rate Convertible Note (the "Note") issued by the Trust on December 13, 2011. The Note is due December 13, 2023 and accrues interest at 4.09% per annum. MassMutual, at its option, can convert the principal amount of the Note into common shares. The dollar amount of principal would be converted into an equivalent dollar amount of common shares based upon the average price of the common shares for ten business days prior to the notice of conversion. For the nine months ended September 30, 2012, the Trust incurred total interest expense on the Note of \$460,125.

The Trust may redeem the Note, in whole or in part, at the principal amount proposed to be redeemed together with the accrued and unpaid interest thereon through the redemption date plus the Make Whole Premium. The Make Whole Premium equals the excess of (i) the present value of the scheduled payments of principal and interest which the Trust would have paid but for the proposed redemption, discounted at the rate of interest of U.S. Treasury obligations whose maturity approximates that of the Note plus 0.50% over (ii) the principal of the Note proposed to be redeemed.

5. Purchases and Sales of Investments  
For the nine  
months ended  
09/30/2012

	Cost of Investments Acquired	Proceeds from Sales or Maturities
Corporate restricted securities	\$ 20,335,290	\$ 30,097,633
Corporate public securities	9,576,793	552,720

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of September 30, 2012. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of September 30, 2012 is \$9,300,083 consists

6. Quarterly Results of Investment Operations

March 31, 2012

	Amount	Per Share
Investment income	\$ 3,397,647	
Net investment income	2,774,324	\$ 0.27
Net realized and unrealized loss on investments (net of taxes)	(223,921)	(0.02)

June 30, 2012

	Amount	Per Share
Investment income	\$ 3,181,794	
Net investment income	2,521,978	\$ 0.25
Net realized and unrealized gain on investments (net of taxes)	1,102,771	0.11

September 30, 2012

	Amount	Per Share
Investment income	\$ 3,204,878	
Net investment income	2,533,303	\$ 0.25
Net realized and unrealized gain on investments (net of taxes)	3,574,928	0.35

of \$13,661,402 appreciation and \$22,961,485 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$539,228 on net unrealized gains on the PI Subsidiary Trust.

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Babson Capital Participation Investors

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DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Babson Capital Participation Investors offers a Dividend Reinvestment and Cash Purchase Plan (the "Plan"). The Plan provides a simple and automatic way for shareholders to add to their holdings in the Trust through the receipt of dividend shares issued by the Trust or through the reinvestment of cash dividends in Trust shares purchased in the open market. The dividends of each shareholder will be automatically reinvested in the Trust by DST Systems, Inc., the Transfer Agent, in accordance with the Plan, unless such shareholder elects not to participate by providing written notice to the Transfer Agent. A shareholder may terminate his or her participation by notifying the Transfer Agent in writing.

Participating shareholders may also make additional contributions to the Plan from their own funds. Such contributions may be made by personal check or other means in an amount not less than \$100 nor more than \$5,000 per quarter. Cash contributions must be received by the Transfer Agent at least five days (but no more than 30 days) before the payment date of a dividend or distribution.

Whenever the Trust declares a dividend payable in cash or shares, the Transfer Agent, acting on behalf of each participating shareholder, will take the dividend in shares only if the net asset value is lower than the market price plus an estimated brokerage commission as of the close of business on the valuation day. The valuation day is the last day preceding the day of dividend payment. When the dividend is to be taken in shares, the number of shares to be received is determined by dividing the cash dividend by the net asset value as of the close of business on the valuation date or, if greater than net asset value, 95% of the closing share price. If the net asset value of the shares is higher than the market value plus an estimated commission, the Transfer Agent, consistent with obtaining the best price and execution, will buy shares on the open market at current prices promptly after the dividend payment date.

The reinvestment of dividends does not, in any way, relieve participating shareholders of any federal, state or local tax. For federal income tax purposes, the amount reportable in respect of a dividend received in newly-issued shares of the Trust will be the fair market value of the shares received, which will be reportable as ordinary income and/or capital gains.

As compensation for its services, the Transfer Agent receives a fee of 5% of any dividend and cash contribution (in no event in excess of \$2.50 per distribution per shareholder.)

Any questions regarding the Plan should be addressed to DST Systems, Inc., Agent for Babson Capital Participation Investors' Dividend

Reinvestment and Cash Purchase Plan, P.O. Box 219086, Kansas City,  
MO 64121-9086.

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