

# 2013

Babson Capital  
**PARTICIPATION INVESTORS**  
2013 Annual Report



## BABSON CAPITAL PARTICIPATION INVESTORS

c / o Babson Capital Management LLC  
1500 Main Street  
P.O. Box 15189  
Springfield, Massachusetts 01115-5189  
(413) 226-1516  
<http://www.BabsonCapital.com/mpv>

### ADVISER

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

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Boston, Massachusetts 02111

### COUNSEL TO THE TRUST

Ropes & Gray LLP  
Boston, Massachusetts 02110

### CUSTODIAN

State Street Bank and Trust Company  
Boston, MA 02110

### TRANSFER AGENT & REGISTRAR

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



### PROXY VOTING POLICIES & PROCEDURES; PROXY VOTING RECORD

The Trustees of Babson Capital Participation Investors (the "Trust") have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital Management LLC ("Babson Capital"). A description of Babson Capital's proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 1-866-399-1516; (2) on the Trust's website at <http://www.BabsonCapital.com/mpv>; and (3) on the U.S. Securities and Exchange Commission's ("SEC") 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, 2013 is available (1) on the Trust's website at <http://www.BabsonCapital.com/mpv>; and (2) on the SEC's website at <http://www.sec.gov>.

### FORM N-Q

The Trust files its complete schedule of portfolio holdings with the 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 on the Trust's website at <http://www.BabsonCapital.com/mpv> or upon request by calling, toll-free, 1-866-399-1516.

## OFFICERS OF THE TRUST



Clifford M. Noreen  
*Chairman*



Michael L. Klofas  
*President*



Michael P. Hermsen  
*Vice President*



Richard E. Spencer, II  
*Vice President*



Sean Feeley  
*Vice President*



James M. Roy  
*Vice President  
& Chief Financial  
Officer*



Christopher A. DeFrancis  
*Vice President, Secretary  
& Chief Legal Officer*

## **BABSON CAPITAL PARTICIPATION INVESTORS**

**Babson Capital Participation Investors is a closed-end investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange.**

### **INVESTMENT OBJECTIVE & POLICY**

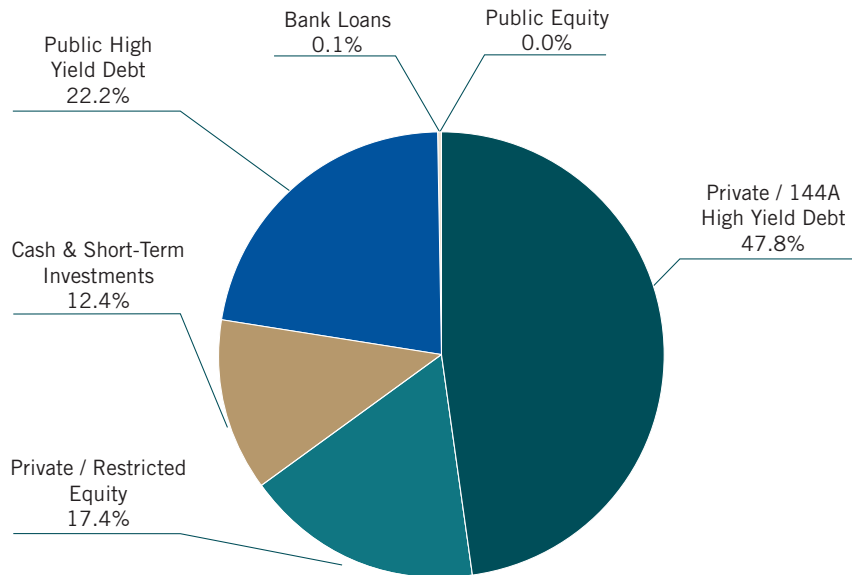
Babson Capital Participation Investors (the “Trust”) is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol “MPV”. The Trust’s share price can be found in the financial section of newspapers under 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 (as defined below), long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. 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. The Trust is prohibited from purchasing below-investment grade securities if, after giving effect to the purchase, more than 75% of the Trust’s total assets would be invested in below-investment grade securities, which are securities that are rated, at the time of purchase, BB or B by S&P or Ba or B by Moody’s, or, if unrated, are believed by Babson Capital Management LLC (“Babson Capital”) to be of an equivalent quality. In addition, the Trust will not invest in any debt security that is rated, at the time of acquisition, below B by S&P or Moody’s, or if unrated, is believed by Babson Capital to be of an equivalent quality. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

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 four times a year 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.

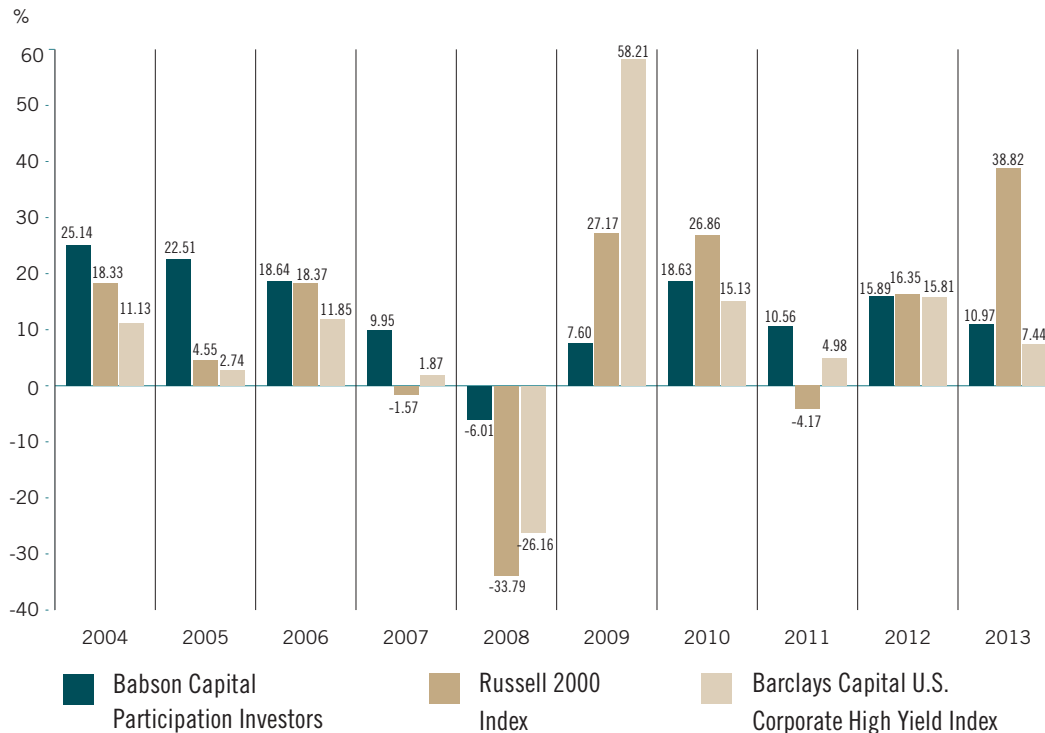
In this report you will find a complete listing of the Trust’s holdings. We encourage you to read this section carefully for a better understanding of the Trust. We cordially invite all shareholders to attend the Trust’s Annual Meeting of Shareholders, which will be held on April 16, 2014 at 1:00 P.M. in Springfield, Massachusetts.

**PORTFOLIO COMPOSITION AS OF 12/31/13\***



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

**TOTAL ANNUAL PORTFOLIO RETURN (AS OF 12/31 EACH YEAR)\***



\* Data for Babson Capital Participation Investors (the "Trust") represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions. These returns differ from the total investment return based on market value of the Trust's shares due to the difference between the Trust's net asset value and the market value of its shares outstanding (see page 11 for total investment return based on market value). Past performance is no guarantee of future results.

## TO OUR SHAREHOLDERS

I am pleased to share with you the Trust's Annual Report for the year ended December 31, 2013.

## PORTFOLIO PERFORMANCE

The Trust's net total portfolio rate of return for 2013 was 11.0%, as measured by the change in net asset value and assuming the reinvestment of all dividends and distributions. The Trust's total net assets were \$131,415,408 or \$12.83 per share, as of December 31, 2013. This compares to \$127,874,125, or \$12.56 per share, as of December 31, 2012. The Trust paid a quarterly dividend of \$0.27 per share for each of the four quarters of 2013, for a total annual dividend of \$1.08 per share. In 2012, the Trust also paid four quarterly dividends of \$0.27 per share, for a total annual dividend of \$1.08 per share. Net investment income for 2013 was \$1.00 per share, including approximately \$0.04 per share of non-recurring income, down \$0.08 per share from 2012 net investment income of \$1.08 per share, which included approximately \$0.06 per share of non-recurring income.

The Trust's stock price declined 7.4% during 2013, from \$13.91 as of December 31, 2012 to \$12.88 as of December 31, 2013. Most of the decline occurred in the fourth quarter of the year. Since year-end, the stock price has recovered quite nicely, to \$13.66 as of February 25, 2014. The Trust's stock price of \$12.88 as of December 31, 2013 equates to a 0.4% premium over the December 31, 2013 net asset value per share of \$12.83. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 16.6%, 10.1% and 10.6%, respectively.

The table below lists the average annual net returns of the Trust's portfolio, based on the change in net assets and assuming the reinvestment of all dividends and distributions. Average annual returns of the Barclays Capital U.S. Corporate High Yield Index and the Russell 2000 Index for the 1, 3, 5 and 10 years ended December 31, 2013 are provided for comparison purposes only.

	The Trust	Barclays Capital U.S. Corporate High Yield Index	Russell 2000 Index
1 Year	10.97%	7.44%	38.82%
3 Years	12.45%	9.32%	15.67%
5 Years	12.68%	18.93%	20.08%
10 Years	13.06%	8.62%	9.07%

Past performance is no guarantee of future results.

## PORTFOLIO ACTIVITY

Middle market merger and acquisition activity was slow during 2013, declining for the second straight year and remaining well below historical levels. As a result, new investment activity for the Trust was down from the prior year. For the full year 2013, the Trust closed 11 new private placement investments and seven add-on investments in existing portfolio companies. Total private placement investments purchased in 2013 were \$16,175,835. This amount represents a 29.7% decrease from the \$23,001,545 of new private placement investments completed by the Trust in 2012. Competition for new investment opportunities was intense in 2013, as there continued to be an overabundance of private debt and equity capital looking to be invested. Attractive companies are being aggressively pursued by both buyers and lenders, resulting in purchase price and leverage multiples rising to levels not seen since 2007. Pricing and return expectations also continued to be squeezed given the existing market supply/demand dynamics. All in all, 2013 was a difficult year for new investment activity in the private mezzanine market.

New private placement investments completed during 2013 were ARI Holding Corporation; CG Holdings Manufacturing Company; CTM Holding, Inc.; EPM Holding Company; gloProfessional Holdings, Inc.; Hi-Rel Group LLC; Janus Group Holding LLC; Signature Systems Holdings Company; SMB Machinery Holdings, Inc.; Strahman Holdings, Inc.; and Tranzonic Holdings LLC. In addition, the Trust added to existing private placement investments in Advanced Manufacturing Enterprises, LLC; A S C Group, Inc.; CG Holdings Manufacturing Company; FGI Equity LLC; K & N Parent, Inc.; Safety Infrastructure Solutions; and Synteract Holdings Corporation. A brief description of these investments can be found in the Consolidated Schedule of Investments.

While new investment activity was off from last year's pace, the condition of the Trust's existing portfolio strengthened once again in 2013. Sales and earnings for the Trust's portfolio companies as a whole continued their upward momentum. Credit upgrades in the portfolio this year outnumbered credit downgrades by a three to one margin. The number of companies on our watch list and in default is at or near the lowest level we have seen over the last five years.

We had 13 companies exit from the Trust's portfolio during 2013, some of which were sold off in pieces over the last several years. In ten of these exits, the Trust realized a positive return on its investment. These investments were AE Company, Inc.; EXC Acquisition Corporation; Flutes, Inc.; HGGC Citadel Plastics Holdings; Marshall Physicians Services LLC; Paradigm Packaging, Inc.; Qualis Automotive LLC; RM Holding Company; The Tranzonic Companies and Visioneering, Inc. Three long-standing troubled investments, International Offshore Services LLC, Monessen Holding Corporation, and Workplace Media Holding Company were also realized in 2013 at recovery levels consistent with their carrying values.

We had an unprecedented level of refinancing activity in the portfolio in 2013, on top of an unusually high level in 2012. These transactions, in which the debt instruments held by the Trust were fully or partially prepaid, are being driven by companies seeking to take advantage of low interest rates and the abundant availability of capital. During 2013, we had 32 portfolio companies fully or partially prepay their debt obligations to the Trust, including ten such transactions in the month of December alone. This high level of prepayment activity near year end is the principal reason that the cash balance at year end was unusually high. Including the 13 exits, 45 of the 119 companies, or 38%, in which the Trust held private restricted securities at the end of 2012 either fully or partially prepaid their debt obligations or left the portfolio entirely. In addition to the high cash balance at year end, the other effect of such activity is the reduction in net investment income that we experienced in 2013.

#### **OUTLOOK FOR 2014**

We have started the year off with a healthy level of deal flow, which should help the Trust begin to rebuild its private mezzanine debt portfolio. Surveys of middle market financiers indicate that most expect 2014 to be a more robust year in terms of deal flow than 2013. However, they also indicate an expectation of continued upward pressure on leverage levels and downward pressure on pricing and returns. In the face of these expected market conditions, we will continue to employ on behalf of the Trust the same investment philosophy that has served it well since its inception: investing in companies which we believe have a strong business proposition, solid cash flow and experienced, ethical management. We believe this philosophy, along with Babson Capital's seasoned investment management team, positions the Trust well to meet its long-term investment objectives.

While the Trust was able to maintain its \$0.27 per share quarterly dividend in 2013, this level may not be sustainable throughout 2014. The Trust is currently not earning \$0.27 per share per quarter due principally to the high level of prepayment and exit activity that has occurred over the past two

years. We anticipate a continuance of a higher than normal level of exit and prepayment activity in 2014. We have not yet been able to fully offset this with new investments due to the slow merger and acquisition market of the last few years. In short, the number of private mezzanine debt securities in the portfolio has shrunk considerably over the past two years, and it is unlikely we can build the portfolio back up to its former size in the near term. As we move through 2014, we and the Board of Trustees will continue to evaluate the earnings capacity of the Trust and seek to formulate a dividend strategy in light of that earnings level.

As always, I would like to thank you for your continued interest in and support of Babson Capital Participation Investors. I look forward to seeing you at the Trust's annual shareholder meeting in Springfield on April 16, 2014.

Lastly, on behalf of the Trust's shareholders, the members of the Board of Trustees, and the officers of the Trust, I would once again like to thank Donald E. Benson and Donald Glickman for their many years of dedicated service to the Trust as Trustees. Both of them provided the Trust with invaluable insight and guidance, and served our shareholders extremely well throughout their respective long tenures as Trustees. I would also like to welcome Barbara M. Ginader as a Trustee. Barbara was elected at the October 2013 Board of Trustees meeting for a term of office to expire at the 2014 annual meeting of shareholders. On a sad note, I would also like to acknowledge the passing of Martin T. Hart. Martin was a Trustee from 1991 until his retirement in 2012. He passed away on January 3, 2014, and he will be missed.

Sincerely,



Michael L. Klofas  
President

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 in 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.

2013 Dividends	Record Date	Net Investment Income	Short-Term Gains	Tax Effect	Long-Term Gains
Regular	4/29/2013	0.2700	-		-
	8/1/2013	0.2700	-		-
	10/28/2013	0.2700	-		-
	12/31/2013	0.2700	-		-
		\$ 1.0800	-	\$1.0800	0.0000

The Trust did not have distributable net long-term capital gains in 2013.

Annual Dividend Amount Per Share	Qualified for Dividend Received Deduction*** Percent	Qualified Dividends**** Amount Per Share	Interest Earned on U.S. Gov't. Obligations Percent
\$1.08	2.3949%	0.0258	0%

\*\*\* Not available to individual shareholders

\*\*\*\* Qualified dividends are reported in Box 1b on IRS Form 1099-Div for 2013

# BABSON CAPITAL PARTICIPATION INVESTORS

## **Financial Report**

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**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

December 31, 2013

**Assets:**

## Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value

(Cost - \$85,537,975 )

\$ 83,026,607

Corporate restricted securities at market value

(Cost - \$14,195,411 )

14,615,991

Corporate public securities at market value

(Cost - \$32,082,059 )

33,399,424

Short-term securities at amortized cost

8,499,533

Total investments (Cost -\$140,314,978 )

139,541,555

Cash

10,101,322

Interest receivable

1,256,764

Other assets

18,123**Total assets****150,917,764****Liabilities:**

Note payable

15,000,000

Dividend payable

2,765,925

Deferred tax liability

670,560

Tax payable

334,004

Investment advisory fee payable

295,685

Payable for investments purchased

170,976

Interest payable

27,267

Accrued expenses

237,939**Total liabilities****19,502,356****Total net assets****\$ 131,415,408****Net Assets:**

Common shares, par value \$.01 per share

\$ 102,441

Additional paid-in capital

96,376,955

Retained net realized gain on investments, prior years

37,186,148

Undistributed net investment income

251,059

Accumulated net realized loss on investments

(1,057,212)

Net unrealized depreciation of investments

(1,443,983)**Total net assets****\$ 131,415,408****Common shares issued and outstanding (14,785,750 authorized)****10,244,167****Net asset value per share****\$ 12.83**

**CONSOLIDATED STATEMENT OF OPERATIONS**

For the year ended December 31, 2013

**Investment Income:**

Interest	\$ 12,451,316
Dividends	264,384
Other	<u>114,218</u>
<b>Total investment income</b>	<b><u>12,829,918</u></b>

**Expenses:**

Investment advisory fees	1,191,986
Interest	613,500
Trustees' fees and expenses	336,000
Professional fees	253,900
Reports to shareholders	90,000
Custodian fees	30,000
Other	<u>86,482</u>
<b>Total expenses</b>	<b><u>2,601,868</u></b>

<b>Investment income - net</b>	<b><u>10,228,050</u></b>
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**Net realized and unrealized gain on investments:**

Net realized loss on investments before taxes	(885,718)
Income tax expense	<u>(230,425)</u>
Net realized loss on investments after taxes	<u>(1,116,143)</u>
Net change in unrealized appreciation of investments before taxes	4,853,899
Net change in deferred income tax expense	<u>(202,926)</u>
Net change in unrealized appreciation of investments after taxes	<u>4,650,973</u>
<b>Net gain on investments</b>	<b><u>3,534,830</u></b>

<b>Net increase in net assets resulting from operations</b>	<b><u>\$ 13,762,880</u></b>
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## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

### Net decrease in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$ (977,377)
Purchases of portfolio securities	(40,393,320)
Proceeds from disposition of portfolio securities	50,022,831
Interest, dividends and other income received	11,570,021
Interest expense paid	(613,500)
Operating expenses paid	(1,891,256)
Income taxes paid	<u>(962,016)</u>
<b>Net cash provided by operating activities</b>	<b><u>16,755,383</u></b>

Cash flows from financing activities:

Cash dividends paid from net investment income	(11,022,909)
Receipts for shares issued on reinvestment of dividends	<u>817,760</u>
<b>Net cash used for financing activities</b>	<b><u>(10,205,149)</u></b>

<b>Net increase in cash</b>	<b>6,550,234</b>
Cash - beginning of year	<u>3,551,088</u>
<b>Cash - end of year</b>	<b><u>\$ 10,101,322</u></b>

### Reconciliation of net increase in net assets to net cash provided by operating activities:

<b>Net increase in net assets resulting from operations</b>	<b><u>\$ 13,762,880</u></b>
Decrease in investments	3,329,279
Increase in interest receivable	(124,890)
Increase in receivable for investments sold	(2,199)
Decrease in other assets	50,890
Increase in deferred tax liability	202,926
Decrease in tax payable	(731,591)
Increase in investment advisory fee payable	7,968
Increase in payable for investments purchased	170,976
Increase in accrued expenses	<u>89,144</u>
<b>Total adjustments to net assets from operations</b>	<b><u>2,992,503</u></b>
<b>Net cash provided by operating activities</b>	<b><u>\$ 16,755,383</u></b>

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****For the years ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Increase in net assets:</b>		
Operations:		
Investment income - net	\$ 10,228,050	\$ 10,965,123
Net realized loss on investments after taxes	(1,116,143)	2,488,796
Net change in unrealized appreciation of investments after taxes	<u>4,650,973</u>	<u>4,059,101</u>
Net increase in net assets resulting from operations	13,762,880	17,513,020
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2013 - 60,918; 2012 - 71,363)	817,760	1,013,772
Dividends to shareholders from:		
Net investment income (2013 - \$1.08 per share; 2012 - \$1.04 per share)	(11,039,357)	(10,584,312)
Net realized gains (2013 - \$0.00 per share; 2012 - \$0.04 per share)	<u>-</u>	<u>(388,021)</u>
<b>Total increase in net assets</b>	<b>3,541,283</b>	<b>7,554,459</b>
<b>Net assets, beginning of year</b>	<b><u>127,874,125</u></b>	<b><u>120,319,666</u></b>
<b>Net assets, end of year</b> (including undistributed net investment income of \$251,059 and \$1,493,124, respectively)	<b><u>\$ 131,415,408</u></b>	<b><u>\$ 127,874,125</u></b>

**CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS****Selected data for each share of beneficial interest outstanding:**

	For the years ended December 31,				
	2013	2012	2011	2010	2009
Net asset value:					
Beginning of year	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10
Net investment income (a)	1.00	1.08	1.14	1.02	0.94
Net realized and unrealized gain (loss) on investments	0.35	0.64	0.08	0.95	(0.13)
Total from investment operations	1.35	1.72	1.22	1.97	0.81
Dividends from net investment income to common shareholders	(1.08)	(1.04)	(1.23)	(1.00)	(1.00)
Dividends from net realized gain on investments to common shareholders	-	(0.04)	(0.00) (b)	-	-
Increase from dividends reinvested	0.00 (b)	0.02	0.02	0.01	0.00 (b)
Total dividends	(1.08)	(1.06)	(1.21)	(0.99)	(1.00)
Net asset value: End of year	\$ 12.83	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91
Per share market value:					
End of year	\$ 12.88	\$ 13.91	\$ 15.85	\$ 13.88	\$ 12.20
Total investment return					
Net asset value (c)	10.97%	15.89%	10.56%	18.71%	7.60%
Market value (c)	0.47%	(4.54%)	24.16%	22.94%	40.86%
Net assets (in millions):					
End of year	\$ 131.42	\$ 127.87	\$ 120.32	\$ 119.54	\$ 108.93
Ratio of total expenses to average net assets	2.15%	2.83%	2.18%	2.53%	2.04%
Ratio of operating expenses to average net assets	1.51%	1.51%	1.42%	1.46%	1.41%
Ratio of interest expense to average net assets	0.47%	0.49%	0.56%	0.61%	0.63%
Ratio of income tax expense to average net assets (d)	0.17%	0.83%	0.20%	0.46%	0.00%
Ratio of net investment income to average net assets	7.77%	8.82%	9.33%	8.96%	8.55%
Portfolio turnover	30%	34%	21%	27%	23%

(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.

**Senior borrowings:**

Total principal amount (in millions)	\$ 15	\$ 15	\$ 15	\$ 12	\$ 12
Asset coverage per \$1,000 of indebtedness	\$ 9,761	\$ 9,525	\$ 9,021	\$ 10,962	\$ 10,077

**CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2013**

<b>Corporate Restricted Securities - 74.30%: (A)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Private Placement Investments - 63.18%</b>				
<b>1492 Acquisition LLC</b>				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated Note due 2019	\$ 1,163,964	10/17/12	\$ 1,143,738	\$ 1,168,086
Limited Liability Company Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	46,111
Limited Liability Company Unit Class A Preferred (B)	102 uts.	10/17/12	<u>102,270</u>	<u>110,461</u>
			<u>1,257,372</u>	<u>1,324,658</u>
<b>A H C Holding Company, Inc.</b>				
A designer and manufacturer of boilers and water heaters for the commercial sector.				
Limited Partnership Interest (B)	12.26% int.	11/21/07	<u>96,028</u>	<u>237,396</u>
<b>A S C Group, Inc.</b>				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
14% Senior Subordinated Note due 2020	\$ 1,023,357	12/20/13	1,002,960	1,017,516
Limited Liability Company Unit Class A (B)	3,094 uts.	*	153,704	243,962
Limited Liability Company Unit Class B (B)	1,479 uts.	10/09/09	<u>52,999</u>	<u>116,619</u>
* 10/09/09 and 10/27/10.			<u>1,209,663</u>	<u>1,378,097</u>
<b>A W X Holdings Corporation</b>				
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	210,000
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 common stock at \$.01 per share (B)	21,099 shs.	05/15/08	<u>35,654</u>	<u>-</u>
			<u>894,225</u>	<u>210,000</u>
<b>ABC Industries, Inc.</b>				
A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 2019	\$ 500,000	08/01/12	454,213	496,093
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	125,000
Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)	22,414 shs.	08/01/12	<u>42,446</u>	<u>22,414</u>
			<u>621,659</u>	<u>643,507</u>
<b>ACP Cascade Holdings LLC</b>				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
Limited Liability Company Unit Class B (B)	32 uts.	11/09/12	<u>-</u>	<u>-</u>

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Advanced Manufacturing Enterprises LLC</b>				
A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
14% Senior Subordinated Note due 2018	\$ 1,134,615	12/07/12	\$ 1,119,671	\$ 1,064,434
Limited Liability Company Unit (B)	1,431 uts.	*	<u>143,077</u>	<u>89,637</u>
			<u>1,262,748</u>	<u>1,154,071</u>
<b>Advanced Technologies Holdings</b>				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	421 shs.	12/27/07	208,456	865,107
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	<u>21,600</u>	<u>57,070</u>
* 12/07/12 and 07/11/13.			<u>230,056</u>	<u>922,177</u>
<b>All Current Holding Company</b>				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
Common Stock (B)	713 shs.	09/26/08	71,303	150,310
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	<u>46,584</u>	<u>106,882</u>
			<u>117,887</u>	<u>257,192</u>
<b>American Hospice Management Holding LLC</b>				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2014	\$ 1,237,502	*	1,236,317	1,237,502
Preferred Class A Unit (B)	1,706 uts.	**	170,600	192,011
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	193,248
Common Class B Unit (B)	16,100 uts.	01/22/04	1	-
Common Class D Unit (B)	3,690 uts.	09/12/06	<u>-</u>	<u>-</u>
* 01/22/04 and 06/09/08.			<u>1,487,707</u>	<u>1,622,761</u>
** 01/22/04 and 09/12/06.				
<b>AMS Holding LLC</b>				
A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.				
Limited Liability Company Unit Class A Preferred (B)	114 uts.	10/04/12	<u>113,636</u>	<u>157,933</u>
<b>Apex Analytix Holding Corporation</b>				
A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe.				
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	238,040
Common Stock (B)	723 shs.	04/28/09	<u>723</u>	<u>131,652</u>
			<u>162,992</u>	<u>369,692</u>
<b>Arch Global Precision LLC</b>				
A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$ 792,797	12/21/11	776,986	798,362
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	37,635
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	<u>221,582</u>	<u>293,426</u>
			<u>1,026,986</u>	<u>1,129,423</u>

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>ARI Holding Corporation</b>				
A leading national supplier of products used primarily by specialty contractors.				
13.5% Senior Subordinated Note due 2020	\$ 1,315,144	05/21/13	\$ 1,290,502	\$ 1,341,447
Preferred Stock Series (B)	29 shs.	05/21/13	289,604	298,148
Common Stock (B)	29 shs.	05/21/13	<u>32,178</u>	<u>141,828</u>
			<u>1,612,284</u>	<u>1,781,423</u>
<b>Arrow Tru-Line Holdings, Inc.</b>				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
12% Senior Subordinated Note due 2016	\$ 205,667	05/18/05	180,253	205,667
Preferred Stock (B)	33 shs.	10/16/09	33,224	96,779
Common Stock (B)	263 shs.	05/18/05	263,298	11,174
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	69 shs.	05/18/05	<u>59,362</u>	<u>2,930</u>
			<u>536,137</u>	<u>316,550</u>
<b>Baby Jogger Holdings LLC</b>				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019	\$ 942,213	04/20/12	926,770	961,057
Common Stock (B)	754 shs.	04/20/12	<u>75,376</u>	<u>133,079</u>
			<u>1,002,146</u>	<u>1,094,136</u>
<b>Blue Wave Products, Inc.</b>				
A distributor of pool supplies.				
10% Senior Secured Term Note due 2018	\$ 317,730	10/12/12	312,383	314,296
13% Senior Subordinated Note due 2019	\$ 321,633	10/12/12	300,747	316,601
Common Stock (B)	51,064 shs.	10/12/12	51,064	65,707
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	20,216 shs.	10/12/12	<u>20,216</u>	<u>26,013</u>
			<u>684,410</u>	<u>722,617</u>
<b>BP SCI LLC</b>				
A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.				
14% Senior Subordinated Note due 2018	\$ 1,067,144	10/17/12	1,049,210	1,034,284
Limited Liability Company Unit Class A (B)	417 uts.	10/17/12	41,667	34,173
Limited Liability Company Unit Class B (B)	167 uts.	10/17/12	<u>166,666</u>	<u>186,859</u>
			<u>1,257,543</u>	<u>1,255,316</u>



**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Bravo Sports Holding Corporation</b>				
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	\$ 1,200,757	\$ 1,087,112
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	24,213
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	<u>48,760</u>	<u>8,510</u>
			<u>1,391,615</u>	<u>1,119,835</u>
<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	\$ 53,634	08/07/08	53,500	53,634
12.5% Senior Subordinated Note due 2015	\$ 429,070	08/07/08	415,756	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	84,734
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	<u>32,965</u>	<u>66,625</u>
			<u>544,081</u>	<u>634,063</u>
<b>Capital Specialty Plastics, Inc.</b>				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	<u>252</u>	<u>538,427</u>
*12/30/97 and 05/29/99.				
<b>CG Holdings Manufacturing Company</b>				
A coating provider serving the automotive, agricultural, heavy truck and other end markets.				
13% Senior Subordinated Note due 2019	\$ 1,412,605	05/09/13	1,334,163	1,423,519
Preferred Stock (B)	1,350 shs.	05/09/13	134,972	135,925
Preferred Stock (B)	489 shs.	05/09/13	48,721	49,265
Common Stock (B)	140 shs.	05/09/13	14,864	15,417
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	58 shs.	05/09/13	<u>5,430</u>	<u>6,404</u>
			<u>1,538,150</u>	<u>1,630,530</u>
<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	\$ 745,139	01/19/11	715,253	760,042
14% Senior Subordinated Note due 2019	\$ 192,929	08/03/12	189,672	193,893
Common Stock (B)	375 shs.	01/19/11	37,500	44,703
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	<u>29,250</u>	<u>35,139</u>
			<u>971,675</u>	<u>1,033,777</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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	\$ 414,303	03/26/12	\$ 403,481	\$ 412,495
Common Stock (B)	1,327 shs.	*	132,700	115,198
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	57 shs.	03/26/12	<u>5,740</u>	<u>4,948</u>
*03/26/12, 05/25/12 and 06/19/12.			<u>541,921</u>	<u>532,641</u>
<b>Clough, Harbour and Associates</b>				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	<u>146,594</u>	<u>216,057</u>
<b>Connecticut Electric, Inc.</b>				
A supplier and distributor of electrical products sold into the retail and wholesale markets.				
Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	82,613	60,246
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	46,699
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	730,096
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	-
			<u>142,369</u>	<u>837,041</u>
<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	342,812
Preferred Stock Series C (B)	3,748 shs.	07/05/07	125,207	141,497
Common Stock (B)	380 shs.	07/05/07	4	-
Limited Partnership Interest (B)	6.88% int.	*	<u>103,135</u>	<u>-</u>
*08/12/04 and 01/14/05.			<u>599,142</u>	<u>484,309</u>
<b>CorePharma LLC</b>				
A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.				
Warrant, exercisable until 2015, to purchase common stock at \$.001 per share (B)	10 shs.	08/04/05	<u>72,617</u>	<u>172,467</u>
<b>Crane Rental Corporation</b>				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	\$ 1,032,750	08/21/08	996,355	1,032,750
Common Stock (B)	135,000 shs.	08/21/08	135,000	176,087
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	72,037 shs.	08/21/08	<u>103,143</u>	<u>93,961</u>
			<u>1,234,498</u>	<u>1,302,798</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>CTM Holding, Inc.</b>				
A leading owner and operator of coin-operated children's rides, penny presses and candy kiosks in the U.S.				
15% Senior Subordinated Note due 2019	\$ 1,185,659	11/22/13	\$ 1,162,292	\$ 1,187,495
Common Stock (B)	31,044 shs.	11/22/13	<u>443,182</u>	<u>421,023</u>
			<u>1,605,474</u>	<u>1,608,518</u>
<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.				
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	212,545
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	155,289
Common Stock (B)	38 shs.	10/27/09	38,244	54,771
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	<u>25,735</u>	<u>40,018</u>
			<u>324,821</u>	<u>462,623</u>
<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	\$ 1,322,397	05/04/12	1,300,742	1,236,208
Preferred Stock (B)	25 shs.	05/04/12	252,434	271,300
Common Stock (B)	25 shs.	05/04/12	<u>28,048</u>	<u>28,703</u>
			<u>1,581,224</u>	<u>1,536,211</u>
<b>Duncan Systems, Inc.</b>				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2015	\$ 25,715	11/01/06	25,714	24,900
13% Senior Subordinated Note due 2015	\$ 488,572	11/01/06	478,496	481,238
Common Stock (B)	102,857 shs.	11/01/06	102,857	32,271
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	<u>44,663</u>	<u>10,132</u>
			<u>651,730</u>	<u>548,541</u>
<b>E S P Holdco, Inc.</b>				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
Common Stock (B)	349 shs.	01/08/08	<u>174,701</u>	<u>244,359</u>
<b>Eatem Holding Company</b>				
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	867,257	965,764
Common Stock (B)	50 shs.	02/01/10	50,000	64,846
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	119 shs.	02/01/10	<u>107,100</u>	<u>154,619</u>
			<u>1,024,357</u>	<u>1,185,229</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	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	\$ 943,473	03/01/12	\$ 928,555	\$ 907,341
Common Stock (B)	41 shs.	03/01/12	<u>90,909</u>	<u>56,746</u>
			<u>1,019,464</u>	<u>964,087</u>
<b>EPM Holding Company</b>				
A provider of non-discretionary regulatory driven engineering services that support mission critical safety and operational aspects of nuclear power plants.				
14.5% Senior Subordinated Note due 2019	\$ 578,124	07/26/13	570,763	572,601
Common Stock (B)	1,535 shs.	07/26/13	<u>153,474</u>	<u>65,684</u>
			<u>724,237</u>	<u>638,285</u>
<b>F F C Holding Corporation</b>				
A leading U.S. manufacturer of private label frozen novelty and ice cream products.				
Limited Liability Company Unit Preferred (B)	171 uts.	09/27/10	58,345	195,685
Limited Liability Company Unit (B)	171 uts.	09/27/10	<u>17,073</u>	<u>69,735</u>
			<u>75,418</u>	<u>265,420</u>
<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, room, hotel, educational system, and food processing settings.				
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	142,936
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	17,920
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	15,781
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	<u>16,009</u>	<u>22,795</u>
			<u>105,046</u>	<u>199,432</u>
<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.				
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	<u>46,958</u>	<u>569,259</u>
<b>GD Dental Services LLC</b>				
A provider of convenient “onestop” general, specialty, and cosmetic dental services with 21 offices located throughout South and Central Florida.				
Limited Liability Company Unit Common (B)	767 uts.	10/05/12	767	23,851
Limited Liability Company Unit Preferred (B)	76 uts.	10/05/12	<u>75,920</u>	<u>82,090</u>
			<u>76,687</u>	<u>105,941</u>
<b>gloProfessional Holdings, Inc.</b>				
A marketer and distributor of premium mineral-based cosmetics, cosmeceuticals and professional hair care products to the professional spa and physician's office channels.				
14% Senior Subordinated Note due 2019	\$ 1,149,144	03/27/13	1,128,439	1,126,241
Common Stock (B)	1,181 shs.	03/27/13	<u>118,110</u>	<u>103,724</u>
			<u>1,246,549</u>	<u>1,229,965</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Golden County Foods Holding, Inc.</b>				
A manufacturer of frozen appetizers and snacks.				
14% Senior Subordinated Note due 2019 (D)	\$ 38,950	11/13/13	\$ 231,183	\$ -
Preferred Stock (B)	151,643 shs.	11/13/13	77,643	-
Preferred Stock Series F (B)	155,800 shs.	11/13/13	<u>924,731</u>	-
			<u>1,233,557</u>	-
<b>H M Holding Company</b>				
A designer, manufacturer, and importer of promotional and wood furniture.				
7.5% Senior Subordinated Note due 2016 (D)	\$ 362,700	10/15/09	271,181	-
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 2016, to purchase common stock at \$.02 per share (B)	67 shs.	02/10/06	<u>61,875</u>	-
* 09/18/07 and 06/27/08.			<u>1,348,028</u>	-
<b>Handi Quilter Holding Company</b>				
A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.				
Common Stock (B)	38 shs.	11/14/11	38,461	104,101
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	28 shs.	11/14/11	<u>25,596</u>	<u>74,543</u>
			<u>64,057</u>	<u>178,644</u>
<b>Healthcare Direct Holding Company</b>				
A direct-to-customer marketer of discount dental plans.				
14% Senior Subordinated Note due 2019 (D)	\$ 717,061	03/09/12	704,846	681,208
Common Stock (B)	517 shs.	03/09/12	<u>51,724</u>	<u>20,509</u>
			<u>756,570</u>	<u>701,717</u>
<b>Hi-Rel Group LLC</b>				
A manufacturer and distributor of precision metal piece parts for the microelectronic packaging industry, serving the aerospace/ defense, telecommunications, and medical end markets.				
12% Senior Subordinated Note due 2018	\$ 703,125	04/15/13	661,590	694,561
Limited Liability Company Unit (B)	234 uts.	04/15/13	234,375	240,970
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37,177 shs.	04/15/13	<u>32,344</u>	<u>3,551</u>
			<u>928,309</u>	<u>939,082</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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	\$ 88,157
Warrant, exercisable until 2016, to purchase common stock at \$.02 per share (B)	106 shs.	*	<u>105,618</u>	<u>280,288</u>
* 06/30/04 and 08/19/04.			<u>138,834</u>	<u>368,445</u>
<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	<u>-</u>	<u>-</u>
			<u>-</u>	<u>-</u>
<b>Hospitality Mints Holding Company</b>				
A manufacturer of individually-wrapped imprinted promotional mints.				
12% Senior Subordinated Note due 2016	\$ 1,098,837	08/19/08	1,060,726	1,075,358
Common Stock (B)	251 shs.	08/19/08	251,163	67,479
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	<u>60,233</u>	<u>17,442</u>
			<u>1,372,122</u>	<u>1,160,279</u>
<b>HVAC Holdings, Inc.</b>				
A provider of integrated energy efficiency services and maintenance programs for HVAC systems.				
14% Senior Subordinated Note due 2019	\$ 1,165,316	09/27/12	1,145,221	1,154,022
Preferred Stock Series A (B)	1,127 shs.	09/27/12	112,726	127,177
Common Stock (B)	910 shs.	09/27/12	<u>910</u>	<u>3,126</u>
			<u>1,258,857</u>	<u>1,284,325</u>
<b>Ideal Tridon Holdings, Inc.</b>				
A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.				
Common Stock (B)	93 shs.	10/27/11	<u>92,854</u>	<u>170,002</u>
<b>Insurance Claims Management, Inc.</b>				
A third party administrator providing auto and property claim administration services for insurance companies.				
Common Stock (B)	47 shs.	02/27/07	<u>1,424</u>	<u>330,296</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities:</b> (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>J A C Holding Enterprises, Inc.</b>				
A supplier of luggage racks and accessories to the original equipment manufacturers.				
Preferred Stock A (B)	165 shs.	12/20/10	\$ 165,000	\$ 230,252
Preferred Stock B (B)	0.06 shs.	12/20/10	-	84
Common Stock (B)	33 shs.	12/20/10	1,667	154,258
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	12 shs.	12/20/10	<u>105,643</u>	<u>55,955</u>
			<u>272,310</u>	<u>440,549</u>
<b>Janus Group Holdings LLC</b>				
A manufacturer of roll-up doors and hallway systems that are primarily used in self-storage facilities.				
13.5% Senior Subordinated Note due 2019	\$ 1,342,391	12/11/13	1,315,734	1,341,879
Limited Liability Company Unit Class A (B)	283 uts.	12/11/13	<u>282,609</u>	<u>268,479</u>
			<u>1,598,343</u>	<u>1,610,358</u>
<b>Jason Partners Holdings LLC</b>				
A diversified manufacturing company serving various industrial markets.				
Limited Liability Company Unit (B)	48 uts.	09/21/10	<u>449,086</u>	<u>25,511</u>
<b>JMH Investors LLC</b>				
A developer and manufacturer of custom formulations for a wide variety of foods.				
14.25% Senior Subordinated Note due 2019	\$ 1,057,756	12/05/12	1,039,082	1,032,205
Limited Liability Company Unit (B)	217,391 uts.	12/05/12	<u>217,391</u>	<u>153,124</u>
			<u>1,256,473</u>	<u>1,185,329</u>
<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 2019	\$ 1,148,459	12/23/11	1,123,864	1,162,937
Preferred Stock Series A (B)	102 shs.	12/23/11	39,887	120,487
Preferred Stock Series B (B)	29 shs.	12/23/11	-	34,098
Common Stock (B)	130 shs.	12/23/11	<u>6,522</u>	<u>50,918</u>
			<u>1,170,273</u>	<u>1,368,440</u>
<b>K N B Holdings Corporation</b>				
A designer, manufacturer and marketer of products for the custom framing market.				
Common Stock (B)	71,053 shs.	05/25/06	71,053	37,002
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	<u>37,871</u>	<u>22,706</u>
			<u>108,924</u>	<u>59,708</u>
<b>K P H I Holdings, Inc.</b>				
A manufacturer of highly engineered plastic and metal components for a diverse range of end-markets, including medical, consumer and industrial, automotive and defense.				
Common Stock (B)	232,826 shs.	12/10/10	<u>232,826</u>	<u>282,473</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>K P I Holdings, Inc.</b>				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
Convertible Preferred Stock Series C (B)	29 shs.	06/30/09	\$ 29,348	\$ 82,512
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	59,701
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	12,928
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	-	17,139
			<u>327,925</u>	<u>211,160</u>
<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.				
Common Stock (B)	105 shs.	08/15/11	105,019	154,953
<b>M V I Holding, Inc.</b>				
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	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	09/12/08	34,714	-
			<u>66,857</u>	<u>-</u>
<b>Mail Communications Group, Inc.</b>				
A provider of mail processing and handling services, lettershop services, and commercial printing services.				
Limited Liability Company Unit (B)	12,764 uts.	*	166,481	269,511
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	1,787 shs.	05/04/07	22,781	37,734
			<u>189,262</u>	<u>307,245</u>
* 05/04/07 and 01/02/08.				
<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	385,228	419,971
15% Senior Subordinated Note due 2018	\$ 111,024	10/05/10	109,580	106,685
Common Stock (B)	35 shs.	10/05/10	35,400	84,498
Common Stock Class B (B)	118 shs.	01/15/10	117,647	280,826
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	01/15/10	94,579	248,530
			<u>742,434</u>	<u>1,140,510</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities:</b> (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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	*	\$ 1,056,830	\$ 1,117,495
Preferred Stock Series A (B)	1,388 shs.	09/07/10	138,797	396,783
Common Stock (B)	162 shs.	03/01/11	16,226	46,310
Common Stock (B)	153 shs.	09/07/10	15,282	43,738
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	103 shs.	03/01/11	10,325	29,444
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	386 shs.	09/07/10	<u>38,623</u>	<u>110,344</u>
* 09/07/10 and 03/01/11.			<u>1,276,083</u>	<u>1,744,114</u>
<b>MedSystems Holdings LLC</b>				
A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.				
Preferred Unit (B)	66 uts.	08/29/08	66,451	88,958
Common Unit Class A (B)	671 uts.	08/29/08	671	41,757
Common Unit Class B (B)	250 uts.	08/29/08	<u>63,564</u>	<u>15,537</u>
			<u>130,686</u>	<u>146,252</u>
<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	89,221
Limited Partnership Interest (B)	0.74% int.	09/16/08	205,932	470,712
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	18 shs.	09/24/08	<u>18,237</u>	<u>82,842</u>
			<u>278,209</u>	<u>642,775</u>
<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	418,093	428,971
Limited Liability Company Unit Series B (B)	155,945 uts.	09/22/11	<u>155,945</u>	<u>118,885</u>
			<u>574,038</u>	<u>547,856</u>
<b>MicroGroup, Inc.</b>				
A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.				
7% Senior Subordinated Note due 2014 (D)	\$ 902,727	*	865,676	225,682
Preferred Stock Series A (B)	519 shs.	10/10/12	498,734	-
Common Stock (B)	238 shs.	*	238,000	-
Common Stock Series B (B)	597 shs.	10/10/12	6	-
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	87 shs.	*	<u>86,281</u>	<u>-</u>
*08/12/05 and 09/11/06.			<u>1,688,697</u>	<u>225,682</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>MNX Holding Company</b>				
An international third party logistics company providing customized logistics services to customers across the globe.				
14% Senior Subordinated Note due 2019	\$ 1,233,676	11/02/12	\$ 1,212,129	\$ 1,213,456
Common Stock (B)	45 shs.	11/02/12	<u>44,643</u>	<u>33,185</u>
			<u>1,256,772</u>	<u>1,246,641</u>
<b>Motion Controls Holdings</b>				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated Note due 2017	\$ 957,216	11/30/10	945,626	956,640
Limited Liability Company Unit Class B-1 (B)	93,750 uts.	11/30/10	-	78,920
Limited Liability Company Unit Class B-2 (B)	8,501 uts.	11/30/10	-	<u>7,156</u>
			<u>945,626</u>	<u>1,042,716</u>
<b>NABCO, Inc.</b>				
A producer of explosive containment vessels in the United States.				
Common Stock (B)	429 shs.	12/20/12	<u>306,091</u>	-
<b>NetShape Technologies, Inc.</b>				
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	1,040,516	1,008,389
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	224,732
Limited Liability Company Unit Class D-2 of				
Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	<u>34,547</u>	-
* 12/18/08 and 09/30/09.			<u>1,793,173</u>	<u>1,233,121</u>
<b>Nicoat Acquisitions LLC</b>				
A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications.				
14% Senior Subordinated Note due 2018	\$ 491,695	11/05/10	462,679	491,695
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	21,771
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	44,107
Limited Liability Company Unit Series F (B)	34,931 uts.	11/05/10	-	<u>364,980</u>
			<u>514,851</u>	<u>922,553</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Northwest Mailing Services, Inc.</b>				
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	*	\$ 1,344,111	\$ 1,480,702
Limited Partnership Interest (B)	1,740 uts.	*	174,006	117,789
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	2,605 shs.	*	<u>260,479</u>	<u>176,325</u>
*07/09/09 and 08/09/10.			<u>1,778,596</u>	<u>1,774,816</u>
<b>NT Holding Company</b>				
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	830,374	891,948
Common Stock (B)	126 shs.	*	125,883	171,792
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	59 shs.	02/02/11	<u>52,987</u>	<u>80,178</u>
* 02/02/11 and 06/30/11.			<u>1,009,244</u>	<u>1,143,918</u>
<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	419,714	444,445
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	27,329
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	15,367
Common Stock (B)	344 shs.	06/04/10	<u>344</u>	<u>-</u>
			<u>506,537</u>	<u>487,141</u>
<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	935,579
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	328 shs.	01/17/06	<u>90,424</u>	<u>157,960</u>
			<u>393,309</u>	<u>1,093,539</u>
<b>P K C Holding Corporation</b>				
A manufacturer of plastic film and badges for the general industrial, medical, and food industries.				
Preferred Stock Class A (B)	29 shs.	12/21/10	180,380	336,337
Common Stock (B)	29 shs.	12/21/10	<u>13,500</u>	<u>55,792</u>
			<u>193,880</u>	<u>392,129</u>
<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	\$ 978,715	12/20/10	966,470	978,715
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	111,140
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	<u>1,072</u>	<u>111,140</u>
			<u>1,073,613</u>	<u>1,200,995</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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.				
0% Senior Subordinated Note due 2014 (B)	\$ 42,188	12/18/12	\$ -	\$ 42,188
<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	-
			<u>1,342,900</u>	<u>-</u>
<b>Petroplex Inv Holdings LLC</b>				
A leading provider of acidizing services to E&P customers in the Permian Basin.				
16% Senior Subordinated Note due 2018	\$ 1,142,962	11/29/12	1,119,287	1,112,112
Limited Liability Company Unit (B)	156,250 uts.	11/29/12	156,250	155,068
			<u>1,275,537</u>	<u>1,267,180</u>
<b>Postle Aluminum Company LLC</b>				
A manufacturer and distributor of aluminum extruded products.				
15% Senior Subordinated Note due 2014	\$ 901,422	06/03/10	897,268	901,422
Limited Liability Company Unit Class A (B)	733 uts.	10/02/06	270,000	146,480
Limited Liability Company Unit (B)	76 uts.	05/22/09	340	15,193
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	4,550 shs.	10/02/06	65,988	909,646
			<u>1,233,596</u>	<u>1,972,741</u>
<b>Precision Wire Holding Company</b>				
A manufacturer of specialty medical wires that are used in non-elective minimally invasive surgical procedures.				
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	109 shs.	11/12/09	107,970	184,507
<b>R A J Manufacturing Holdings LLC</b>				
A designer and manufacturer of women's swimwear sold under a variety of licensed brand names.				
14.5% Senior Subordinated Note due 2014 (D)	\$ 831,458	12/15/06	811,311	415,729
Limited Liability Company Unit (B)	1,497 uts.	12/15/06	149,723	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	2 shs.	12/15/06	69,609	-
			<u>1,030,643</u>	<u>415,729</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>REVSpring, Inc.</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	\$ 1,160,735	*	\$ 1,144,325	\$ 1,156,473
Limited Liability Company Unit Class A (B)	13,548 uts.	*	<u>135,477</u>	<u>164,789</u>
* 10/21/11 and 08/03/12.			<u>1,279,802</u>	<u>1,321,262</u>
<b>Rose City Holding Company</b>				
A designer and printer of folding cartons and packaging for food and beverage manufacturers on the West Coast.				
Preferred Stock (B)	39,062 shs.	12/11/12	39,062	42,334
Common Stock (B)	39 shs.	12/11/12	<u>4</u>	<u>16,650</u>
			<u>39,066</u>	<u>58,984</u>
<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	\$ 843,750	*	833,385	854,299
Preferred Stock (B)	2,098 shs.	03/30/12	83,920	96,476
Common Stock (B)	983 shs.	03/30/12	<u>9,830</u>	<u>24,227</u>
* 03/30/12 and 05/16/13.			<u>927,135</u>	<u>975,002</u>
<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	<u>826,004</u>	<u>-</u>
<b>Signature Systems Holding Company</b>				
A seller and installer of a variety of modular surfaces, industrial matting and related products used for ground protection.				
12.5% Senior Subordinated Note due 2021	\$ 755,088	03/15/13	714,220	753,669
Common Stock (B)	76 shs.	03/15/13	75,509	86,479
Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B)	31 shs.	03/15/13	<u>28,316</u>	<u>35,331</u>
			<u>818,045</u>	<u>875,479</u>
<b>Smart Source Holdings LLC</b>				
A short-term computer rental company.				
Limited Liability Company Unit (B)	328 uts.	*	261,262	421,072
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	83 shs.	*	<u>67,467</u>	<u>106,658</u>
* 08/31/07 and 03/06/08.			<u>328,729</u>	<u>527,730</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>SMB Machinery Holdings, Inc.</b>				
A reseller of used, rebuilt and refurbished packaging and processing equipment, primarily serving the bottling and food manufacturing industries.				
14% Senior Subordinated Note due 2019	\$ 731,362	10/18/13	\$ 717,114	\$ 727,070
Common Stock (B)	841 shs.	10/18/13	<u>84,100</u>	<u>79,895</u>
			<u>801,214</u>	<u>806,965</u>
<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 2020	\$ 896,447	11/12/10	859,592	896,447
Preferred Stock A (B)	1,132 shs.	11/12/10	100,501	77,720
Preferred Stock B (B)	525 shs.	11/12/10	-	36,065
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	<u>1,806</u>	<u>-</u>
			<u>968,478</u>	<u>1,010,232</u>
<b>SouthernCare Holdings, Inc.</b>				
A hospice company providing palliative care services to terminally ill patients.				
Common Stock (B)	909 shs.	12/01/11	<u>90,909</u>	<u>103,186</u>
<b>Spartan Foods Holding Company</b>				
A manufacturer of branded pizza crusts and pancakes.				
14.25% Senior Subordinated Note due 2017	\$ 1,200,671	12/15/09	1,088,903	1,151,762
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	136 shs.	12/15/09	<u>120,234</u>	<u>15,397</u>
			<u>1,209,137</u>	<u>1,167,159</u>
<b>Specialty Commodities, Inc.</b>				
A distributor of specialty food ingredients.				
Common Stock (B)	16 shs.	10/23/08	158,824	301,403
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6 shs.	10/23/08	<u>53,285</u>	<u>113,866</u>
			<u>212,109</u>	<u>415,269</u>
<b>Stag Parkway Holding Company</b>				
A distributor of RV parts and accessories in the United States.				
13% Senior Subordinated Note due 2018	\$ 1,143,506	12/19/12	1,096,328	1,143,889
Common Stock (B)	118 shs.	12/19/12	118,203	139,166
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	12/19/12	<u>31,848</u>	<u>40,867</u>
			<u>1,246,379</u>	<u>1,323,922</u>

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**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Strahman Holdings Inc</b>				
A manufacturer of industrial valves and wash down equipment for a variety of industries, including chemical, petrochemical, polymer, pharmaceutical, food processing, beverage and mining.				
14% Senior Subordinated Note due 2020	\$ 1,059,783	12/13/13	1,038,681	1,058,386
Preferred Stock Series A (B)	158,967 shs.	12/13/13	<u>158,967</u>	<u>151,019</u>
			<u>1,197,648</u>	<u>1,209,405</u>
<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 (D)	\$ 959,148	07/01/11	943,703	-
Preferred Stock Series A (B)	76 shs.	07/01/11	<u>76,046</u>	<u>-</u>
			<u>1,019,749</u>	<u>-</u>
<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	<u>-</u>	<u>-</u>
<b>Sunrise Windows Holding Company</b>				
A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.				
14% Senior Subordinated Note due 2017	\$ 1,023,020	12/14/10	983,887	1,002,721
14% Senior Subordinated PIK Note due 2017	\$ 90,638	08/17/12	87,784	88,839
Common Stock (B)	38 shs.	12/14/10	38,168	20,840
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37 shs.	12/14/10	<u>37,249</u>	<u>20,338</u>
			<u>1,147,088</u>	<u>1,132,738</u>
<b>Synteract Holdings Corporation</b>				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
14% Senior Subordinated Note due 2019	\$ 1,759,561	09/02/08	1,696,735	1,708,793
Preferred Stock Series D (B)	257 shs.	02/27/13	25,678	-
Redeemable Preferred Stock Series A (B)	678 shs.	09/02/08	6,630	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6,778 shs.	09/02/08	<u>59,661</u>	<u>-</u>
			<u>1,788,704</u>	<u>1,708,793</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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 2016 (D)	\$ 428,960	*	\$ 74,107	\$ -
Common Stock Class B	32 shs.	*	4,448	-
Limited Partnership Interest of Saw Mill Capital Fund V, LLC (B)	2.27% int.	**	109,603	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	41 shs.	04/28/06	<u>33,738</u>	<u>-</u>
* 04/28/06 and 09/13/06.			<u>221,896</u>	<u>-</u>
**03/01/05 and 10/10/08.				
<b>Torrent Group Holdings, Inc.</b>				
A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow.				
3% Senior Subordinated Note due 2018 (D)	\$ 1,062,258	12/05/13	-	-
15% Senior Subordinated Note due 2020 (D)	\$ 46,798	12/05/13	219,203	-
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	28,079	12/05/13	<u>-</u>	<u>-</u>
			<u>219,203</u>	<u>-</u>
<b>Transpac Holding Company</b>				
A designer, importer, and wholesaler of home décor and seasonal gift products.				
12% Senior Subordinated Note due 2015 (D)	\$ 938,651	10/31/07	906,898	563,191
Common Stock (B)	110 shs.	10/31/07	110,430	-
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	50 shs.	10/31/07	<u>46,380</u>	<u>-</u>
			<u>1,063,708</u>	<u>563,191</u>
<b>Tranzonic Holdings LLC</b>				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
14% Senior Subordinated Note due 2019	\$ 1,491,670	07/05/13	1,463,711	1,487,714
Limited Liability Company Unit Class A (B)	147,727 shs.	07/05/13	<u>147,727</u>	<u>152,292</u>
			<u>1,611,438</u>	<u>1,640,006</u>



**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Truck Bodies &amp; Equipment International</b>				
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 2016	\$ 1,222,698	*	\$ 1,195,927	\$ 1,222,698
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	504,106
Common Stock (B)	393 shs.	*	423,985	-
Warrant, exercisable until 2017, 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.			<u>1,832,239</u>	<u>1,726,804</u>
<b>TruStile Doors, Inc.</b>				
A manufacturer and distributor of interior doors.				
Limited Liability Company Unit (B)	5,888 uts.	02/28/11	93,750	236,277
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	3,060 shs.	04/11/03	<u>36,032</u>	<u>50,698</u>
			<u>129,782</u>	<u>286,975</u>
<b>U-Line Corporation</b>				
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	155,774
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	122 shs.	04/30/04	<u>112,106</u>	<u>197,141</u>
			<u>208,506</u>	<u>352,915</u>
<b>U M A Enterprises, Inc.</b>				
An importer and wholesaler of home décor products.				
Convertible Preferred Stock (B)	470 shs.	02/08/08	<u>469,565</u>	<u>1,192,999</u>
<b>Vitex Packaging Group, Inc.</b>				
A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.				
Class B Unit (B)	406,525 uts.	10/29/09	184,266	-
Class C Unit (B)	450,000 uts.	10/29/09	413,244	233,117
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	<u>96,848</u>	-
* 07/19/04 and 10/29/09.			<u>923,711</u>	<u>233,117</u>

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Wellborn Forest Holding Company</b>				
A manufacturer of semi-custom kitchen and bath cabinetry.				
12.13% Senior Subordinated Note due 2016 (D)	\$ 911,250	11/30/06	\$ 867,531	\$ -
Common Stock (B)	101 shs.	11/30/06	101,250	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	51 shs.	11/30/06	<u>45,790</u>	<u>-</u>
			<u>1,014,571</u>	<u>-</u>
<b>Wheaton Holding Corporation</b>				
A distributor and manufacturer of laboratory supply products and packaging.				
Preferred Stock Series B (B)	703 shs.	06/08/10	70,308	97,989
Common Stock (B)	353 shs.	06/08/10	<u>353</u>	<u>8,974</u>
			<u>70,661</u>	<u>106,963</u>
<b>Whitcraft Holdings, Inc.</b>				
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	746,677	770,592
Common Stock (B)	205 shs.	12/16/10	205,480	82,370
Warrant, exercisable until 2018, to purchase common stock at \$.02 per share (B)	55 shs.	12/16/10	<u>49,334</u>	<u>22,136</u>
			<u>1,001,491</u>	<u>875,098</u>
<b>WP Supply Holding Corporation</b>				
A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest.				
14.5% Senior Subordinated Note due 2018	\$ 897,040	11/03/11	883,554	914,981
Common Stock (B)	1,500 shs.	11/03/11	150,000	215,049
			<u>1,033,554</u>	<u>1,130,030</u>
<b>Total Private Placement Investments (E)</b>			<b><u>\$85,537,975</u></b>	<b><u>\$83,026,607</u></b>

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>
<b>Rule 144A Securities - 11.12%:</b>					
<b>Bonds - 11.12%</b>					
AAR Corporation	7.250 %	01/15/22	\$ 1,000,000	\$ 1,058,370	\$ 1,070,000
Alliant Techsystems Inc.	5.250	10/01/21	500,000	500,000	501,250
Antero Resources Corporation	5.375	11/01/21	395,000	395,000	398,950
ArcelorMittal	6.125	06/01/18	500,000	511,975	548,750
Calumet Specialty Products Partners L.P.	7.625	01/15/22	380,000	374,329	383,800
Cornerstone Chemical Company	9.375	03/15/18	375,000	383,997	394,687
CTP Transportation Products, LLC	8.250	12/15/19	310,000	310,000	323,175
First Data Corporation	7.375	06/15/19	250,000	250,000	266,875
FMG Resources	7.000	11/01/15	129,000	131,425	133,838
Forest Laboratories, Inc.	5.000	12/15/21	370,000	370,000	371,387
Forum Energy Technologies	6.250	10/01/21	160,000	160,000	168,000
Hercules Offshore, Inc.	7.500	10/01/21	750,000	750,000	795,000
Hilcorp Energy Company	7.625	04/15/21	325,000	312,860	352,625
Hilton Worldwide Holdings, Inc.	5.625	10/15/21	750,000	750,000	778,125
J.B. Poindexter Co., Inc.	9.000	04/01/22	500,000	500,000	533,750
LBC Tank Terminals Holding Netherlands B.V.	6.875	05/15/23	663,000	684,122	685,376
Lear Corporation	4.750	01/15/23	375,000	367,942	351,563
MEG Energy Corporation	6.375	01/30/23	500,000	500,000	503,125
MEG Energy Corporation	7.000	03/31/24	500,000	500,000	506,250
NXP BV/NXP Funding LLC	3.750	06/01/18	750,000	750,000	755,625
Penske Corporation	4.875	07/11/22	500,000	498,106	512,940
RKI Inc.	8.500	08/01/21	500,000	502,419	526,250
Prestige Brands Holdings, Inc.	5.375	12/15/21	650,000	650,000	656,500
Safway Group Holding LLC/Finance Corporation	7.000	05/15/18	250,000	250,000	263,750
Samson Investment Company	9.750	02/15/20	350,000	344,006	381,500
Sirius XM Radio Inc.	5.875	10/01/20	445,000	445,000	453,900
Sprint Corporation	7.125	06/15/24	155,000	155,000	157,325
Tesoro Logistics LP	5.875	10/01/20	500,000	511,193	511,250
Topaz Marine S.A.	8.625	11/01/18	500,000	500,000	503,750
Univision Communications	5.125	05/15/23	160,000	160,000	159,800
Valeant Pharmaceuticals International	7.000	10/01/20	250,000	250,721	269,375
Welltec A/S	8.000	02/01/19	375,000	368,946	397,500
<b>Total Bonds</b>				<b><u>14,195,411</u></b>	<b><u>14,615,991</u></b>

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Restricted Securities: (A) (Continued)</b>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>
<b>Convertible Preferred Stock - 0.00%</b>					
ETEX Corporation (B)			194	\$ _____ -	\$ _____ -
<b>Total Convertible Preferred Stock</b>				_____ -	_____ -
<b>Preferred Stock - 0.00%</b>					
TherOX, Inc. (B)			26	_____ -	_____ -
<b>Total Preferred Stock</b>				_____ -	_____ -
<b>Common Stock - 0.00%</b>					
Touchstone Health Partnership (B)			292	_____ -	_____ -
<b>Total Common Stock</b>				_____ -	_____ -
<b>Total Rule 144A Securities</b>				<u>14,195,411</u>	<u>14,615,991</u>
<b>Total Corporate Restricted Securities</b>				<u>\$ 99,733,386</u>	<u>\$ 97,642,598</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

<b>Corporate Public Securities - 25.41%: (A)</b>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>
<b>Bank Loans - 0.13%</b>					
Aquilex Holdings LLC	5.250 %	12/31/20	\$ 171,405	\$ 170,976	\$ 171,833
<b>Total Bank Loans</b>				<b>170,976</b>	<b>171,833</b>
<b>Bonds - 25.28%</b>					
Accuride Corp	9.500 %	08/01/18	\$ 500,000	\$ 484,746	\$ 488,750
Alcoa, Inc.	6.150	08/15/20	600,000	626,480	646,623
Alliant Techsystems Inc.	6.875	09/15/20	500,000	533,169	539,375
Ally Financial, Inc.	5.500	02/15/17	750,000	761,810	811,875
Alta Mesa Financial Services	9.625	10/15/18	750,000	730,262	802,500
American Axle & Manufacturing, Inc.	5.125	02/15/19	120,000	120,000	123,300
Anglogold Holdings PLC	5.375	04/15/20	600,000	604,657	561,000
Avis Budget Car Rental	9.750	03/15/20	375,000	375,000	439,688
B E Aerospace, Inc.	6.875	10/01/20	250,000	255,990	274,375
B&G Foods, Inc.	4.625	06/01/21	440,000	440,000	422,400
Bank of America Corporation	5.875	01/05/21	600,000	620,788	689,632
Bill Barrett Corporation	7.000	10/15/22	500,000	480,919	518,750
Brunswick Corporation	7.125	08/01/27	500,000	504,723	523,750
Calumet Specialty Products Partners L.P.	9.375	05/01/19	375,000	353,695	416,250
CCO Holdings Capital Corporation	5.250	09/30/22	500,000	495,503	466,875
Centurytel, Inc.	5.000	02/15/15	500,000	504,053	518,750
CHC Helicopter SA	9.250	10/15/20	1,000,000	935,565	1,077,500
CIT Group, Inc.	5.000	08/15/22	500,000	500,000	487,500
Clearwater Paper Corporation	4.500	02/01/23	500,000	495,303	450,000
Coeur d'Alene Mines Corporation	7.875	02/01/21	500,000	501,810	507,500
Commercial Metals Company	4.875	05/15/23	750,000	751,498	697,500
Continental Resources, Inc.	5.000	09/15/22	500,000	510,551	519,375
CVR Refining LLC	6.500	11/01/22	350,000	338,072	343,875
DaVita, Inc.	5.750	08/15/22	500,000	500,000	506,250
Duke Realty Limited Partnership	3.875	10/15/22	500,000	507,057	475,211
EnSCO PLC	3.250	03/15/16	600,000	598,904	626,427
Equifax, Inc.	4.450	12/01/14	500,000	503,797	515,668
GATX Corporation	4.750	05/15/15	500,000	499,325	525,355
General Electric Capital Corporation	5.500	01/08/20	500,000	498,681	572,581
Headwaters, Inc.	7.625	04/01/19	305,000	305,119	328,638
Health Management Association	6.125	04/15/16	250,000	254,542	276,875
HealthSouth Corporation	7.750	09/15/22	405,000	405,861	443,475
Hertz Corporation	6.750	04/15/19	220,000	217,352	237,050

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)**December 31, 2013**

<b>Corporate Public Securities:</b> (A) (Continued)	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>
International Game Technology	7.500 %	06/15/19	\$ 500,000	\$ 499,821	\$ 581,834
Jabil Circuit, Inc.	4.700	09/15/22	500,000	499,967	480,000
Johnson Controls, Inc.	5.500	01/15/16	500,000	463,321	543,116
Kraft Foods, Inc.	5.375	02/10/20	500,000	511,691	564,695
Lazard Group LLC	4.250	11/14/20	500,000	498,382	498,915
Lennar Corporation	4.750	11/15/22	375,000	369,546	347,813
Linn Energy, LLC	8.625	04/15/20	500,000	504,796	540,000
Masco Corporation	7.125	03/15/20	350,000	349,998	399,528
Meritor, Inc.	6.750	06/15/21	1,000,000	1,000,000	1,020,000
Morgan Stanley	5.500	01/26/20	500,000	498,184	561,286
NBC Universal Media LLC	5.150	04/30/20	500,000	499,497	558,873
Neustar Inc.	4.500	01/15/23	375,000	363,541	338,438
Nexeo Solutions LLC	8.375	03/01/18	20,000	20,000	19,850
Niska Gas Storage Partners LLC	8.875	03/15/18	500,000	504,906	520,000
Omnova Solutions, Inc.	7.875	11/01/18	750,000	762,040	806,250
Peabody Energy Corporation	6.000	11/15/18	500,000	500,495	532,500
Perry Ellis International, Inc.	7.875	04/01/19	375,000	371,918	399,375
Precision Drilling Corporation	6.625	11/15/20	250,000	256,713	266,875
Qwest Diagnostic, Inc.	4.750	01/30/20	500,000	499,112	520,149
Rosetta Resources Inc.	5.875	06/01/22	500,000	500,000	496,250
ServiceMaster Company	7.000	08/15/20	500,000	500,000	495,625
Sprint Nextel Corporation	6.000	12/01/16	500,000	508,863	545,625
Steelcase, Inc.	6.375	02/15/21	500,000	506,750	549,106
Stone Energy Corporation	7.500	11/15/22	500,000	514,882	522,500
Tech Data Corporation	3.750	09/21/17	500,000	505,681	516,710
Thermadyne Holdings Corporation	9.000	12/15/17	227,000	237,957	242,890
Time Warner Cable, Inc.	5.000	02/01/20	500,000	493,164	507,679
T-Mobile USA Inc.	6.464	04/28/19	340,000	346,328	361,250
T-Mobile USA Inc.	6.731	04/28/22	210,000	207,824	218,925
T-Mobile USA Inc.	6.836	04/28/23	65,000	63,687	67,438
Tronox Finance LLC	6.375	08/15/20	375,000	366,384	382,500
Tyson Foods, Inc.	4.500	06/15/22	500,000	514,711	509,083
Unit Corporation	6.625	05/15/21	500,000	494,527	527,500
Weatherford International Limited	4.500	04/15/22	500,000	519,211	503,150
Xerium Technologies, Inc.	8.875	06/15/18	416,000	436,033	436,800
<b>Total Bonds</b>				<b>31,905,162</b>	<b>33,217,201</b>

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>
<b>Common Stock - 0.00%</b>			
Intrepid Potash, Inc. (B)	185	\$ 5,920	\$ 2,930
Nortek, Inc. (B)	100	<u>1</u>	<u>7,460</u>
<b>Total Common Stock</b>		<u><b>5,921</b></u>	<u><b>10,390</b></u>
<b>Total Corporate Public Securities</b>		<u><b>\$ 32,082,059</b></u>	<u><b>\$ 33,399,424</b></u>

	<u>Interest Rate/Yield<sup>^</sup></u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Short-Term Securities:</b>					
<b>Commercial Paper - 6.47%</b>					
B.A.T. International Finance p.l.c.	0.210 %	01/17/14	\$ 2,000,000	\$ 1,999,813	\$ 1,999,813
IntercontinentalExchange Group, Inc.	0.200	01/14/14	2,000,000	1,999,856	1,999,856
Kinder Morgan Energy Partners LP	0.230	01/07/14	2,000,000	1,999,923	1,999,923
Tesco Treasury Services. PLC	0.100	01/06/14	2,500,000	<u>2,499,941</u>	<u>2,499,941</u>
<b>Total Short-Term Securities</b>				<u><b>\$ 8,499,533</b></u>	<u><b>\$ 8,499,533</b></u>
<b>Total Investments</b>	<b>106.18 %</b>			<u><b>\$ 140,314,978</b></u>	<u><b>\$ 139,541,555</b></u>
Other Assets	8.66				11,376,209
Liabilities	<u>(14.84)</u>				<u>(19,502,356)</u>
<b>Total Net Assets</b>	<u><b>100.00 %</b></u>				<u><b>\$ 131,415,408</b></u>

(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 December 31, 2013.

(D) Defaulted security; interest not accrued.

(E) Illiquid security. As of December 31, 2013, the values of these securities amounted to \$83,026,607 or 63.18% of net assets.

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

PIK - Payment-in-kind

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Industry Classification:</b>	<u>Fair Value/ Market Value</u>	<u>Fair Value/ Market Value</u>
<b>AEROSPACE - 2.90%</b>		
AAR Corporation	\$ 1,070,000	
Alliant Techsystems Inc.	1,040,625	
B E Aerospace, Inc.	274,375	
Merex Holding Corporation	547,856	
Whitcraft Holdings, Inc.	<u>875,098</u>	
	<u>3,807,954</u>	
<b>AUTOMOBILE - 7.42%</b>		
Accuride Corp	488,750	
American Axle & Manufacturing, Inc.	123,300	
Avis Budget Car Rental	439,688	
CG Holdings Manufacturing Company	1,630,530	
DPL Holding Corporation	1,536,211	
Ideal Tridon Holdings, Inc.	170,002	
J A C Holding Enterprises, Inc.	440,549	
Jason Partners Holdings LLC	25,511	
Johnson Controls, Inc.	543,116	
K & N Parent, Inc.	1,368,440	
Lear Corporation	351,563	
Meritor, Inc.	1,020,000	
Ontario Drive & Gear Ltd.	1,093,539	
Penske Corporation	<u>512,940</u>	
	<u>9,744,139</u>	
<b>BEVERAGE, DRUG &amp; FOOD - 7.01%</b>		
1492 Acquisition LLC	1,324,658	
B&G Foods, Inc.	422,400	
Eatem Holding Company	1,185,229	
F F C Holding Corporation	265,420	
Hospitality Mints Holding Company	1,160,279	
JMH Investors LLC	1,185,329	
Kraft Foods, Inc.	564,695	
Snacks Parent Corporation	1,010,232	
Spartan Foods Holding Company	1,167,159	
Specialty Commodities, Inc.	415,269	
Tyson Foods, Inc.	<u>509,083</u>	
	<u>9,209,753</u>	
<b>BROADCASTING &amp; ENTERTAINMENT - 0.81%</b>		
NBC Universal Media LLC	\$ 558,873	
Time Warner Cable, Inc.	<u>507,679</u>	
	<u>1,066,552</u>	
<b>BUILDINGS &amp; REAL ESTATE - 2.21%</b>		
Duke Realty Limited Partnership	475,211	
Lennar Corporation	347,813	
Masco Corporation	399,528	
Safway Group Holding LLC/Finance Corporation	263,750	
Sunrise Windows Holding Company	1,132,738	
TruStile Doors, Inc.	<u>286,975</u>	
	<u>2,906,015</u>	
<b>CHEMICAL, PLASTICS &amp; RUBBER - 2.32%</b>		
Capital Specialty Plastics, Inc.	538,427	
Cornerstone Chemical Company	394,687	
Nicoat Acquisitions LLC	922,553	
Omnova Solutions, Inc.	806,250	
Tronox Finance LLC	<u>382,500</u>	
	<u>3,044,417</u>	
<b>CONSUMER PRODUCTS - 7.76%</b>		
AMS Holding LLC	157,933	
Baby Jogger Holdings LLC	1,094,136	
Bravo Sports Holding Corporation	1,119,835	
Clearwater Paper Corporation	450,000	
Custom Engineered Wheels, Inc.	462,623	
gloProfessional Holdings, Inc.	1,229,965	
Handi Quilter Holding Company	178,644	
K N B Holdings Corporation	59,708	
Manhattan Beachwear Holding Company	1,140,510	
NXP BV/NXP Funding LLC	755,625	
Perry Ellis International, Inc.	399,375	
Prestige Brands Holdings, Inc.	656,500	
R A J Manufacturing Holdings LLC	415,729	
Tranzonic Holdings LLC	1,640,006	
Xerium Technologies, Inc.	<u>436,800</u>	
	<u>10,197,389</u>	

See Notes to Consolidated Financial Statements



**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

December 31, 2013

<b>Industry Classification:</b> (Continued)	<u>Fair Value/ Market Value</u>	<u>Fair Value/ Market Value</u>	
<b>CONTAINERS, PACKAGING &amp; GLASS - 2.05%</b>		<b>DIVERSIFIED/CONGLOMERATE, SERVICE - 11.20%</b>	
P K C Holding Corporation	\$ 392,129	A S C Group, Inc.	\$ 1,378,097
P P T Holdings LLC	1,200,995	A W X Holdings Corporation	210,000
Rose City Holding Company	58,984	Advanced Technologies Holdings	922,177
SMB Machinery Holdings, Inc.	806,965	Anglogold Holdings PLC	561,000
Vitex Packaging Group, Inc.	<u>233,117</u>	Apex Analytix Holding Corporation	369,692
	<u>2,692,190</u>	Bank of America Corporation	689,632
<b>DISTRIBUTION - 5.81%</b>		Church Services Holding Company	532,641
ARI Holding Corporation	1,781,423	Clough, Harbour and Associates	216,057
Blue Wave Products, Inc.	722,617	Crane Rental Corporation	1,302,798
BP SCI LLC	1,255,316	ELT Holding Company	964,087
Duncan Systems, Inc.	548,541	EPM Holding Company	638,285
Signature Systems Holding Company	875,479	Equifax, Inc.	515,668
Stag Parkway Holding Company	1,323,922	Hilton Worldwide Holdings, Inc.	778,125
WP Supply Holding Corporation	<u>1,130,030</u>	HVAC Holdings, Inc.	1,284,325
	<u>7,637,328</u>	Insurance Claims Management, Inc.	330,296
<b>DIVERSIFIED/CONGLOMERATE, MANUFACTURING - 10.05%</b>		Mail Communications Group, Inc.	307,245
A H C Holding Company, Inc.	237,396	Nexeo Solutions LLC	19,850
Advanced Manufacturing Enterprises LLC	1,154,071	Northwest Mailing Services, Inc.	1,774,816
Arrow Tru-Line Holdings, Inc.	316,550	Safety Infrastructure Solutions	975,002
C D N T, Inc.	634,063	ServiceMaster Company	495,625
CTP Transportation Products, LLC	323,175	Sirius XM Radio Inc.	<u>453,900</u>
F G I Equity LLC	199,432		<u>14,719,318</u>
G C Holdings	569,259	<b>ELECTRONICS - 1.40%</b>	
Hi-Rel Group LLC	939,082	Connecticut Electric, Inc.	837,041
Janus Group Holdings LLC	1,610,358	Jabil Circuit, Inc.	480,000
J.B. Poindexter Co., Inc.	533,750	Tech Data Corporation	<u>516,710</u>
K P H I Holdings, Inc.	282,473		<u>1,833,751</u>
K P I Holdings, Inc.	211,160		
LPC Holding Company	154,953		
MEGTEC Holdings, Inc.	642,775		
Nortek, Inc.	7,460		
O E C Holding Corporation	487,141		
Postle Aluminum Company LLC	1,972,741		
Strahman Holdings Inc	1,209,405		
Truck Bodies & Equipment International	<u>1,726,804</u>		
	<u>13,212,048</u>		

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)****December 31, 2013**

<b>Industry Classification:</b> (Continued)	<u>Fair Value/ Market Value</u>	<u>Fair Value/ Market Value</u>	
<b>FINANCIAL SERVICES - 9.71%</b>		<b>LEISURE, AMUSEMENT, ENTERTAINMENT - 2.07%</b>	
Ally Financial, Inc.	\$ 811,875	Brunswick Corporation	\$ 523,750
Alta Mesa Financial Services	802,500	CTM Holding, Inc.	1,608,518
B.A.T. International Finance p.l.c.	1,999,813	International Game Technology	<u>581,834</u>
CIT Group, Inc.	487,500		<u>2,714,102</u>
GATX Corporation	525,355	<b>MACHINERY - 3.79%</b>	
General Electric Capital Corporation	572,581	ABC Industries, Inc.	643,507
IntercontinentalExchange Group, Inc.	1,999,856	Arch Global Precision LLC	1,129,423
Lazard Group LLC	498,915	E S P Holdco, Inc.	244,359
LBC Tank Terminals Holding Netherlands B.V.	685,376	Motion Controls Holdings	1,042,716
Morgan Stanley	561,286	NetShape Technologies, Inc.	1,233,121
REVSpring, Inc.	1,321,262	Pacific Consolidated Holdings LLC	42,188
Tesco Treasury Services. PLC	<u>2,499,941</u>	Thermadyne Holdings Corporation	242,890
	<u>12,766,260</u>	Welltec A/S	<u>397,500</u>
			<u>4,975,704</u>
<b>HEALTHCARE, EDUCATION &amp; CHILDCARE - 5.21%</b>		<b>MEDICAL DEVICES/BIOTECH - 1.50%</b>	
American Hospice Management Holding LLC	1,622,761	Health Management Association	276,875
CHG Alternative Education Holding Company	1,033,777	MedSystems Holdings LLC	146,252
DaVita, Inc.	506,250	MicroGroup, Inc.	225,682
GD Dental Services LLC	105,941	NT Holding Company	1,143,918
Healthcare Direct Holding Company	701,717	Precision Wire Holding Company	<u>184,507</u>
HealthSouth Corporation	443,475		<u>1,977,234</u>
Qwest Diagnostic, Inc.	520,149	<b>MINING, STEEL, IRON &amp; NON-PRECIOUS METALS - 1.92%</b>	
SouthernCare Holdings, Inc.	103,186	Alcoa, Inc.	646,623
Synteract Holdings Corporation	1,708,793	Coeur d'Alene Mines Corporation	507,500
Wheaton Holding Corporation	<u>106,963</u>	Commercial Metals Company	697,500
	<u>6,853,012</u>	FMG Resources	133,838
<b>HOME &amp; OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 2.67%</b>		Peabody Energy Corporation	<u>532,500</u>
Connor Sport Court International, Inc.	484,309		<u>2,517,961</u>
Home Décor Holding Company	368,445	<b>NATURAL RESOURCES - 0.67%</b>	
Steelcase, Inc.	549,106	ArcelorMittal	548,750
Transpac Holding Company	563,191	Headwaters, Inc.	328,638
U-Line Corporation	352,915	Intrepid Potash, Inc.	<u>2,930</u>
U M A Enterprises, Inc.	<u>1,192,999</u>		<u>880,318</u>
	<u>3,510,965</u>		

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

December 31, 2013

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value
<b>OIL &amp; GAS - 11.67%</b>		
Antero Resources Corporation	\$ 398,950	
Bill Barrett Corporation	518,750	
Calumet Specialty Products Partners L.P.	800,050	
Continental Resources, Inc.	519,375	
CVR Refining LLC	343,875	
EnSCO PLC	626,427	
Forum Energy Technologies	168,000	
Hercules Offshore, Inc.	795,000	
Hilcorp Energy Company	352,625	
Kinder Morgan Energy Partners LP	1,999,923	
Linn Energy, LLC	540,000	
MBWS Ultimate Holdco, Inc.	1,744,114	
MEG Energy Corporation	1,009,375	
Niska Gas Storage Partners LLC	520,000	
Petroplex Inv Holdings LLC	1,267,180	
Precision Drilling Corporation	266,875	
RKI Inc.	526,250	
Rosetta Resources Inc.	496,250	
Samson Investment Company	381,500	
Stone Energy Corporation	522,500	
Tesoro Logistics LP	511,250	
Unit Corporation	527,500	
Weatherford International Limited	<u>503,150</u>	
	<u>15,338,919</u>	
<b>PHARMACEUTICALS - 0.62%</b>		
CorePharma LLC	172,467	
Forest Laboratories, Inc.	371,387	
Valeant Pharmaceuticals International	<u>269,375</u>	
	<u>813,229</u>	
<b>TECHNOLOGY - 0.60%</b>		
First Data Corporation		\$ 266,875
Smart Source Holdings LLC		<u>527,730</u>
		<u>794,605</u>
<b>TELECOMMUNICATIONS - 2.35%</b>		
All Current Holding Company		257,192
CCO Holdings Capital Corporation		466,875
Centurytel, Inc.		518,750
Neustar Inc.		338,438
Sprint Corporation		157,325
Sprint Nextel Corporation		545,625
T-Mobile USA Inc.		647,613
Univision Communications		<u>159,800</u>
		<u>3,091,618</u>
<b>TRANSPORTATION - 2.33%</b>		
CHC Helicopter SA		1,077,500
Hertz Corporation		237,050
MNX Holding Company		1,246,641
Topaz Marine S.A.		<u>503,750</u>
		<u>3,064,941</u>
<b>WASTE MANAGEMENT / POLLUTION - 0.13%</b>		
Aquilex Holdings LLC		<u>171,833</u>
<b>Total Investments - 106.18%</b>		<b><u>\$ 139,541,555</u></b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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.

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. The Trust will also invest in publicly traded debt securities (including high yield securities), 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 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 willing market participants at the measurement date.

#### 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 applying 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 \$83,026,607 (63.18% of net assets) as of December 31, 2013 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 – Bank Loans, Corporate Bonds, Preferred Stocks and Common Stocks

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At December 31, 2013, 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 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.

The Trust’s investments in bank loans are normally valued at the bid quotation obtained from dealers in loans by an independent pricing service in accordance with the Trust’s valuation policies and procedures approved by the Trustees.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 includes 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 classified appropriately in the hierarchy.

### Corporate Restricted Securities – Corporate Bonds

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.

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

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

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. 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.

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. A discount for lack of marketability is applied to the end result.

Both the company's EBITDA and valuation multiple are considered significant unobservable inputs.

### 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 December 31, 2013.

	Valuation Technique	Unobservable Inputs	Range	Weighted Average
<b>Corporate Bonds</b>	Discounted Cash Flows	Discount Rate	7.4% to 16.9%	13.4%
<b>Equity Securities</b>	Market Approach	Valuation Multiple	3.5x to 11.0x	7.1x
		Discount for lack of marketability	0% to 24%	5.1%
		EBITDA	\$0.1 million to \$143.2 million	19.6million

### Fair Values Hierarchy

The Trust 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:

- 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)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following is a summary of the inputs used to value the Trust's net assets as of December 31, 2013:

<b>Assets:</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Restricted Securities				
Corporate Bonds	\$ 71,555,578	\$ -	\$ 14,615,991	\$ 56,939,587
Common Stock - U.S.	9,668,741	-	-	9,668,741
Preferred Stock	6,926,282	-	-	6,926,282
Partnerships and LLCs	9,491,997	-	-	9,491,997
Public Securities				
Bank Loans	171,833	-	171,833	-
Corporate Bonds	33,217,201	-	33,217,201	-
Common Stock - U.S.	10,390	10,390	-	-
Short-term Securities	8,499,533	-	8,499,533	-
<b>Total</b>	<b>\$139,541,555</b>	<b>\$ 10,390</b>	<b>\$ 56,504,558</b>	<b>\$ 83,026,607</b>

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

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

<b>Assets:</b>	<b>Beginning balance at 12/31/2012</b>	<b>Included in earnings</b>	<b>Purchases</b>	<b>Sales</b>	<b>Prepayments</b>	<b>Transfers into Level 3</b>	<b>Transfers out of Level 3</b>	<b>Ending balance at 12/31/2013</b>
Restricted Securities								
Corporate Bonds	\$ 81,060,756	\$ (964,988)	\$ 16,670,888	\$ (8,071,817)	\$ (31,755,252)	\$ -	\$ -	\$ 56,939,587
Common Stock - U.S.	7,793,109	2,804,425	1,051,548	(1,980,341)	-	-	-	9,668,741
Preferred Stock	5,786,187	(214,414)	1,400,326	(45,817)	-	-	-	6,926,282
Partnerships and LLCs	6,890,276	2,214,498	629,141	(241,918)	-	-	-	9,491,997
	<b>\$101,530,328</b>	<b>\$3,839,521</b>	<b>\$19,751,903</b>	<b>\$ (10,339,893)</b>	<b>\$ (31,755,252)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 83,026,607</b>

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

	<b>Net Increase in Net Assets Resulting from Operations</b>	<b>Change in Unrealized Gains in Net Assets from assets still held</b>
<b>Interest (Amortization)</b>	<b>546,044</b>	<b>-</b>
<b>Net realized loss on investments before taxes</b>	<b>(2,041,154)</b>	<b>-</b>
<b>Net change in unrealized depreciation of investments before taxes.</b>	<b>5,334,631</b>	<b>4,526,303</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**B. Accounting for Investments:**

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, disclosure of contingent assets and liabilities 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. For the year ended December 31, 2013, the Trust did not have any realized taxable long-term capital 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 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.

Net investment income and net realized gains or losses of the Trust as presented under U.S. GAAP may differ from distributable taxable earnings due to earnings from the PI Subsidiary Trust as well as certain permanent and temporary differences in the recognition of income and realized gains or losses on certain investments. Permanent differences will result in reclassifications

to the capital accounts. In 2013, the Trust decreased undistributed net investment income by \$430,758, decreased accumulated net realized gains by \$3,619,349, increased retained net realized gain on investments, prior years by \$3,452,984 and increased additional paid in capital by \$597,123 to more accurately display the Trust's capital financial position on a tax-basis in accordance with U.S. GAAP. These re-classifications had no impact on net asset value.

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.

The components of income taxes included in the consolidated Statement of Operations for the year ended December 31, 2013 were as follows:

Current:	
Federal	\$ 145,966
State	<u>34,817</u>
Total current	<u>180,783</u>
Deferred:	
Federal	173,993
State	<u>28,933</u>
Total deferred	<u>202,926</u>
Total income tax expense from continuing operations	
	<u>\$ 383,709</u>

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.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2013 were as follows:

**Deferred tax liabilities:**

Unrealized gain on investments	<u>670,560</u>
Total deferred tax liabilities	<u>670,560</u>
Net deferred tax liability	<u>\$ (670,560)</u>

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 year ended December 31, 2013.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

A reconciliation of the differences between the PI Subsidiary Trust's income tax expense and the amount computed by applying the prevailing U.S. federal tax rate to pretax income for the year ended December 31, 2013 is as follows:

	<u>Amount</u>	<u>Percentage</u>
Provision for income taxes at the U.S. federal rate	\$ 353,847	35.00%
State tax, net of federal effect	36,144	3.58%
Change in valuation allowance	0	0%
Other	<u>(6,282)</u>	<u>(0.62%)</u>
Income tax expense	<u>\$ 383,709</u>	<u>37.96%</u>

Each of the Trust's Federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

**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.

The components capital shown in the following table represent the Trust's undistributed net investment income, undistributed net capital gains, losses the Trust may be able to offset against gains in future taxable years, as well as unrealized appreciation (depreciation) on securities and other fund investments, if any, at December 31, 2013, each of which determined on a U.S. federal tax basis:

Undistributed (Overdistributed) Net Investment Income	Undistributed Net Capital Gain	Accumulated Loss Carryforward	Net Unrealized Appreciation (Depreciation) on Securities and Other Investments
<u>\$ 394,100</u>	<u>\$ 0</u>	<u>(\$ 1,072,823)</u>	<u>(\$ 1,571,413)</u>

The tax character of distributions declared during the years ended December 31, 2013 and 2012 was as follows:

<b>Distributions paid from:</b>	<u>2013</u>	<u>2012</u>
Ordinary Income	\$11,039,357	\$ 10,972,333
Long-term Capital Gains	\$ -	\$ -

**F. New Accounting Pronouncements:**

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-08, Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements ("ASU 2013-08"), which updates the criteria used in defining an investment company under U.S. GAAP and also sets forth certain measurement and disclosure requirements. The amendments in ASU 2013-08 are effective for fiscal periods (including interim periods) beginning after December 15, 2013. While management is still assessing the impact of this update on disclosures, the impact of this update is not expected to be material to the financial statements.

**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 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.

**4. Senior Secured 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 year ended December 31, 2013, the Trust incurred total interest expense on the Note of \$613,500.



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.

Management estimates that the fair value of the Note was \$14,321,400 as of December 31, 2013.

## 5. Purchases and Sales of Investments

	<b>For the year ended 12/31/2013</b>	
	<b>Cost of Investments Acquired</b>	<b>Proceeds from Sales or Maturities</b>
Corporate restricted securities	\$ 32,081,127	\$ 46,518,048
Corporate public securities	8,483,169	3,504,783

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of December 31, 2013. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of December 31, 2013 is \$773,423 and consists of \$15,553,810 appreciation and \$16,327,233 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$670,560 on net unrealized gains on the PI Subsidiary Trust.

## 6. Quarterly Results of Investment Operations (Unaudited)

	<b>March 31, 2013</b>	
	<b>Amount</b>	<b>Per Share</b>
Investment income	\$ 3,325,384	
Net investment income	2,696,999	\$ 0.26
Net realized and unrealized gain on investments (net of taxes)	2,350,899	0.23
	<b>June 30, 2013</b>	
	<b>Amount</b>	<b>Per Share</b>
Investment income	\$ 3,234,525	
Net investment income	2,607,163	\$ 0.26
Net realized and unrealized gain on investments (net of taxes)	(1,425,028)	(0.14)

	<b>September 30, 2013</b>	
	<b>Amount</b>	<b>Per Share</b>
Investment income	\$ 2,984,268	
Net investment income	2,343,077	\$ 0.23
Net realized and unrealized gain on investments (net of taxes)	1,888,448	0.18
	<b>December 31, 2013</b>	
	<b>Amount</b>	<b>Per Share</b>
Investment income	\$ 3,285,741	
Net investment income	2,580,811	\$ 0.25
Net realized and unrealized gain on investments (net of taxes)	720,511	0.07

## 7. Aggregate Remuneration Paid to Officers, Trustees, and their Affiliated Persons

For the year ended December 31, 2013, the Trust paid its Trustees aggregate remuneration of \$263,800. During the year, the Trust did not pay any compensation to any of its Trustees who are “interested persons” (as defined by the 1940 Act) of the Trust. The Trust classifies Messrs. Noreen and Joyal as “interested persons” of the Trust.

All of the Trust’s officers are employees of Babson Capital or MassMutual. Pursuant to the Contract, the Trust does not compensate its officers who are employees of Babson Capital (except for the Chief Compliance Officer of the Trust unless assumed by Babson Capital). For the year ended December 31, 2013, Babson Capital paid the compensation of the Chief Compliance Officer of the Trust.

Mr. Noreen, one of the Trust’s Trustees, is an “affiliated person” (as defined by the 1940 Act) of MassMutual and Babson Capital.

The Trust did not make any payments to Babson Capital for the year ended December 31, 2013, other than amounts payable to Babson Capital pursuant to the Contract.

## 8. Certifications

As required under New York Stock Exchange (“NYSE”) Corporate Governance Rules, the Trust’s principal executive officer has certified to the NYSE that he was not aware, as of the certification date, of any violation by the Trust of the NYSE’s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Trust’s principal executive and principal financial officers have made quarterly certifications, included in filings with the Securities and Exchange Commission on Forms N-CSR and N-Q, relating to, among other things, the Trust’s disclosure controls and procedures and internal control over financial reporting, as applicable.

## 9. Subsequent Events

The Trust has evaluated the possibility of subsequent events existing in this report through February 26, 2014. The Trust has determined that there are no material events that would require recognition or disclosure in this report through this date.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



**KPMG LLP**

Two Financial Center  
60 South Street  
Boston, MA 02111

The Shareholders and Board of Trustees of Babson Capital Participation Investors

We have audited the accompanying consolidated statement of assets and liabilities of Babson Capital Participation Investors (the "Trust"), including the consolidated schedule of investments, as of December 31, 2013, and the related consolidated statements of operations and cash flows for the year then ended, the consolidated statements of changes in net assets for each of the years in the two-year period then ended, and the consolidated selected financial highlights for each of the years in the five-year period then ended. These consolidated financial statements and consolidated selected financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated selected financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and consolidated selected financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2013 by correspondence with the custodian and counterparties. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and consolidated selected financial highlights referred to above present fairly, in all material respects, the financial position of Babson Capital Participation Investors as of December 31, 2013, the consolidated results of their operations and cash flows for the year then ended, the consolidated changes in their net assets for each of the years in the two-year period then ended, and the consolidated selected financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

Boston, Massachusetts  
February 26, 2014

## INTERESTED TRUSTEES

Name (Age), Address	Position With The Trust	Office Term / Length of Time Served	Principal Occupations During Past 5 Years	Portfolios Overseen in Fund Complex	Other Directorships Held by Director
<b>Clifford M. Noreen* (56)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee / Chairman	Term expires 2015; Trustee since 2009	President of Babson Capital (since 2008), Vice Chairman (2007-2008), Member of the Board of Managers (since 2006), Managing Director (since 2000), Babson Capital; President (2005-2009), Vice President (1993-2005) of the Trust.	2	Chairman and Trustee (since 2009), President (2005-2009), Vice President (1993-2005), Babson Capital Corporate Investors; President (since 2009), Senior Vice President (1996-2009), HYP Management LLC (LLC Manager); Director (2005-2013), MassMutual Corporate Value Limited (investment company); Director (2005-2013), MassMutual Corporate Value Partners Limited (investment company); Director (since 2008), Jefferies Finance LLC (a finance company); Chairman and Chief Executive Officer (since 2009), Manager (since 2007), MMC Equipment Finance LLC; Director (since 2011), Wood Creek Capital Management, LLC (investment advisory firm); Chairman (since 2009), Trustee (since 2005), President (2005-2009), CI Subsidiary Trust and PI Subsidiary Trust; and Member of Investment Committee (since 1999), Diocese of Springfield.

\* Mr. Noreen is classified as an "interested person" of the Trust and Babson Capital (as defined by the Investment Company Act of 1940, as amended) because of his position as an Officer of the Trust and President of Babson Capital.

## INTERESTED TRUSTEES

Name (Age), Address	Position With The Trust	Office Term / Length of Time Served	Principal Occupations During Past 5 Years	Portfolios Overseen in Fund Complex	Other Directorships Held by Director
<p><b>Robert E. Joyal* (69)</b>                      Babson Capital                      Participation Investors                      1500 Main Street                      P.O. Box 15189                      Springfield, MA 01115-5189</p>	Trustee	Term expires 2016; Trustee since 2003	Retired (since 2003); President (2001-2003), Babson Capital; and President (1993 - 2003) of the Trust.	97	Trustee (since 2003), President (1993-2003), Babson Capital Corporate Investors; Director (since 2006), Jefferies Group, Inc. (financial services); Director (2003-2010), Alabama Aircraft Industries, Inc. (aircraft maintenance and overhaul); Director (2007-2011), Scottish Re Group Ltd. (global life reinsurance specialist); Trustee (since 2003), MassMutual Select Funds (an open-end investment company advised by MassMutual); Trustee (since 2003), MML Series Investment Fund (an open-end investment company advised by MassMutual); Trustee (since 2012), MassMutual Series Investment Fund II (an open-ended investment company advised by MassMutual); Trustee (since 2012), MassMutual Premier Funds (an open-ended investment company advised by MassMutual); Director (since 2012), Ormat Technologies, Inc. (a geothermal energy company); Director (since 2013), Leucadia National Corporation (holding company owning businesses ranging from insurance to telecommunications); and Director (since 2013), Baring Asset Management Korea Limited (company that engages in asset management, business administration and investment management).

\* Mr. Joyal retired as President of Babson Capital in June 2003. In addition and as noted above, Mr. Joyal is a director of Jefferies Group, Inc., which has a wholly-owned broker-dealer subsidiary that may execute portfolio transactions and/or engage in principal transactions with the Trust, other investment companies advised by Babson Capital or any other advisory accounts over which Babson Capital has brokerage placement discretion. Accordingly, the Trust has determined to classify Mr. Joyal as an “interested person” of the Trust and Babson Capital (as defined by the Investment Company Act of 1940, as amended).

## INDEPENDENT TRUSTEES

Name (Age), Address	Position With The Trust	Office Term / Length of Time Served	Principal Occupations During Past 5 Years	Portfolios Overseen in Fund Complex	Other Directorships Held by Director
<b>William J. Barrett (74)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee	Term expires 2015; Trustee since 2006	President (since 2010), WJ Barrett Associates, Inc.; President (2002-2010), Barrett-Gardner Associates, Inc. (private merchant bank).	2	Trustee (since 2006), Babson Capital Corporate Investors; Director (since 1979), TGC Industries, Inc. (geophysical services); Director and Secretary (since 2001 and from 1996-1997), Chase Packaging Corporation (agricultural services); Chairman and Director (2000-2012), Rumson-Fair Haven Bank and Trust Company (commercial bank and trust company); and Director (since 1983), Executive Vice President, Secretary and Assistant Treasurer (since 2004), Supreme Industries, Inc. (specialized truck and body manufacturer).
<b>Michael H. Brown (56)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee / Nominee	Term expires 2014; Trustee since 2005	Private Investor; and Managing Director (1994-2005), Morgan Stanley.	2	Trustee (since 2005), Babson Capital Corporate Investors; Independent Director (since 2006), Invicta Holdings LLC and its subsidiaries (a derivative trading company owned indirectly by MassMutual).
<b>Barbara M. Ginader (57)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee / Nominee	Term expires 2014; Trustee since October 2013	Retired (since 2006); Managing Director (1993-2006), BV Investment Partners (private equity firm).	2	Trustee (since 2013), Babson Capital Corporate Investors; Managing Director (since 1993), Boston Ventures V L.P. (private equity fund); Managing Director (since 1993), Boston Ventures VI L.P. (private equity fund); Member of the Board Overseers (since 2013), MSPCA-Angell; Member of the Grants Committee (since 2013), IECA Foundation.

## INDEPENDENT TRUSTEES

Name (Age), Address	Position With The Trust	Office Term / Length of Time Served	Principal Occupations During Past 5 Years	Portfolios Overseen in Fund Complex	Other Directorships Held by Director
<b>Edward P. Grace III (63)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee	Term expires 2016; Trustee since 2012	President (since 1997), Phelps Grace International, Inc. (investment management); Managing Director (since 1998), Grace Ventures Partners LP (venture capital fund); Senior Advisor (since 2011), Angelo Gordon & Co. (investment adviser).	2	Trustee (since 2012), Babson Capital Corporate Investors; Director (since 2010), Larkburger, Inc. (restaurant chain); Director (since 2012), Benihana, Inc. (restaurant chain); Director (since 2011), Firebirds Wood Fired Holding Corporation (restaurant chain); Director (since 1998), Shawmut Design and Construction (construction management and general contracting firm); Director (2004-2012), Not Your Average Joe's, Inc. (restaurant chain); Director (2008-2010), Logan's Roadhouse, Inc. (restaurant); Director (2007-2009), Claim Jumper Restaurants (restaurant chain); Director (1996-2008), RARE Hospitality International, Inc. (restaurant chain); Director (2006-2008), Quintess/Dream Catchers Retreats; Director (2004-2009), The Gemesis Corporation (cultivator of cultured diamonds); Trustee (1999-2008), Bryant University; Trustee (1994-2010), Johnson & Wales University.
<b>Susan B. Sweeney (61)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee	Term expires 2016; Trustee since 2012	Senior Vice President and Chief Investment Officer (since 2010), Selective Insurance Company of America; Senior Managing Director (2008-2010), Ironwood Capital.	93	Trustee (since 2012), Babson Capital Corporate Investors; Trustee (since 2009), MassMutual Select Funds (an open-ended investment company advised by MassMutual); Trustee (since 2009), MML Series Investment Fund (an open-ended investment company advised by MassMutual); Trustee (since 2012), MassMutual Premier Funds (an open-ended investment company advised by MassMutual); Trustee (since 2012), MML Series Investment Fund II (an open-ended investment company advised by MassMutual).
<b>Maleyne M. Syracuse (57)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee / Nominee	Term expires 2014; Trustee since 2007	Private Investor; Managing Director (2000- 2007), JP Morgan Securities, Inc. (investments and banking); Managing Director (1981 - 2000), Deutsche Bank Securities.	2	Trustee (since 2007), Babson Capital Corporate Investors.

## OFFICERS OF THE TRUST

Name (Age), Address	Position With The Trust	Office Term / Length of Time Served	Principal Occupations During Past 5 Years
<b>Michael L. Klofas (53)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	President	Since 2009	Vice President (1998-2009) of the Trust; President (since 2009), Vice President (1998-2009), Babson Capital Corporate Investors; Managing Director (since 2000), Babson Capital; and President (since 2009), Vice President (2005-2009), CI Subsidiary Trust and PI Subsidiary Trust.
<b>Christopher A. DeFrancis (47)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Vice President, Secretary and Chief Legal Officer	Since 2010	Associate Secretary (2008-2010) of the Trust; Vice President, Secretary and Chief Legal Officer (since 2010), Associate Secretary (2008-2010), Babson Capital Corporate Investors; Chief Compliance Officer (since 2011), Co-General Counsel, Secretary, and Managing Director (since 2010), Senior Counsel, Assistant Secretary and Managing Director (2010), Assistant Secretary and Counsel (2008-2009), Babson Capital; Counsel (2001-2009), Massachusetts Mutual Life Insurance Company; Vice President and Secretary (since 2010), Assistant Secretary (2009-2010), CI Subsidiary Trust and PI Subsidiary Trust.
<b>James M. Roy (51)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Vice President and Chief Financial Officer	Since 2005	Treasurer (2003-2005), Associate Treasurer (1999-2003) of the Trust; Vice President and Chief Financial Officer (since 2005), Treasurer (2003-2005), Associate Treasurer (1999-2003), Babson Capital Corporate Investors; Managing Director (since 2005), Director (2000-2005), Babson Capital; and Trustee (since 2005), Treasurer (since 2005), Controller (2003-2005), CI Subsidiary Trust and PI Subsidiary Trust.
<b>Melissa M. LaGrant (40)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Chief Compliance Officer	Since 2006	Chief Compliance Officer (since 2006), Babson Capital Corporate Investors; Chief Compliance Officer (since 2013), Babson Capital Finance LLC; Chief Compliance Officer (since 2013), Babson Capital Funds Trust; Chief Compliance Officer (since 2012), Babson Capital Global Short Duration High Yield Fund; Managing Director (since 2005), Babson Capital; Vice President and Senior Compliance Trading Manager (2003-2005), Loomis, Sayles & Company, L.P.; and Assistant Vice President-Business Risk Management Group (2002-2003), Assistant Vice President-Investment Compliance (2001-2002), Zurich Scudder Investments/Deutsche Asset Management.
<b>Daniel J. Florence (41)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Treasurer	Since 2008	Associate Treasurer (2006-2008) of the Trust; Treasurer (since 2008), Associate Treasurer (2006-2008), Babson Capital Corporate Investors; and Director (since 2013), Associate Director (2008-2013), Analyst (2000-2008), Babson Capital.

\* Officers hold their position with the Trust until a successor has been duly elected and qualified. Officers are generally elected annually by the Board of Trustees of the Trust. The officers were last elected on July 24, 2013.

**OFFICERS OF THE TRUST**

<b>Name (Age), Address</b>	<b>Position With The Trust</b>	<b>Office Term / Length of Time Served</b>	<b>Principal Occupations During Past 5 Years</b>
<b>Sean Feeley (46)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Vice President	Since 2011	Vice President (since 2011), Babson Capital Corporate Investors; Vice President (since 2012), Babson Capital Global Short Duration High Yield Fund; Managing Director (since 2003), Babson Capital; and Vice President (since 2011), CI Subsidiary Trust and PI Subsidiary Trust.
<b>Michael P. Hermsen (53)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Vice President	Since 1998	Vice President (since 1998), Babson Capital Corporate Investors; Managing Director (since 2000), Babson Capital; Vice President (since 2005), CI Subsidiary Trust and PI Subsidiary Trust; Chief Executive Officer (since 2013), Babson Capital Finance LLC; Director (since 2009), Babson Capital Asia Limited; and Director (since 2009), Babson Capital Australia Holding Company Pty. Ltd. and Babson Capital Australia Pty. Ltd.
<b>Richard E. Spencer, II (51)</b> Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Vice President	Since 2002	Vice President (since 1992), Babson Capital Corporate Investors; Managing Director (since 2000), Babson Capital; and Vice President (since 2005), CI Subsidiary Trust and PI Subsidiary Trust.

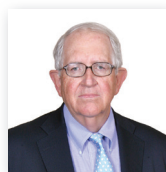
\* Officers hold their position with the Trust until a successor has been duly elected and qualified. Officers are generally elected annually by the Board of Trustees of the Trust. The officers were last elected on July 24, 2013.



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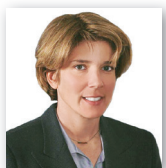
## Members of the Board of Trustees



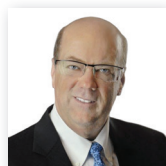
William J. Barrett  
President,  
W J Barrett  
Associates, Inc.



Michael H. Brown\*  
Private Investor



Barbara M. Ginader  
Private Investor



Edward P. Grace  
President  
Phelps Grace  
International, Inc.



Robert E. Joyal  
Retired President,  
Babson Capital  
Management LLC



Clifford M. Noreen  
President,  
Babson Capital  
Management LLC



Susan B. Sweeney\*  
Senior Vice President  
and Chief Investment  
Officer  
Selective Insurance  
Company of America



Maleyne M. Syracuse\*  
Private Investor

## DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Babson Capital Participation Investors (the “Trust”) 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.

### Officers

Clifford M. Noreen Chairman	Michael L. Klofas President	James M. Roy Vice President & Chief Financial Officer
Christopher A. DeFrancis Vice President, Secretary & Chief Legal Officer	Sean Feeley Vice President	Michael P. Hermsen Vice President
Richard E. Spencer, II Vice President	Daniel J. Florence Treasurer	Melissa M. LaGrant Chief Compliance Officer

\*Member of the Audit Committee



Babson Capital  
**PARTICIPATION INVESTORS**  
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