

# Babson Capital Participation Investors

Report for the  
Nine Months Ended September 30, 2012



## 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 02110

## Counsel to the Trust

Ropes & Gray LLP  
Boston, Massachusetts 02110

## Custodian

State Street Bank and Trust Company  
Boston, Massachusetts 02116

## Transfer Agent & Registrar

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

## Internet Website

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



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

## Investment Objective and Policy

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

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

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

## Form N-Q

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

## Proxy Voting Policies & Procedures; Proxy Voting Record

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



## TO OUR SHAREHOLDERS

October 31, 2012

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

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

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

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

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

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

We continue to be pleased with the performance of our portfolio companies, as most reported improved operating results in the third quarter of 2012. Several more of our companies were also able to resume paying cash interest on their debt obligations due to their improved financial results and liquidity positions. Realization activity for the Trust in the third quarter was strong once again, with four companies, Aero Holdings, Inc., Nyloncraft, Inc., Power Services Holding Company, and Stanton Carpet Holding Company, sold for nice gains. The Nyloncraft realization is particularly noteworthy. In January 2002, we made our original investment in the company, which is a supplier of plastic components to the U.S. automotive industry. Nyloncraft’s performance was negatively impacted by the severe downturn in the auto industry in 2008-2009. Thanks to the efforts of the transaction sponsor, Hammond,

(Continued)

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

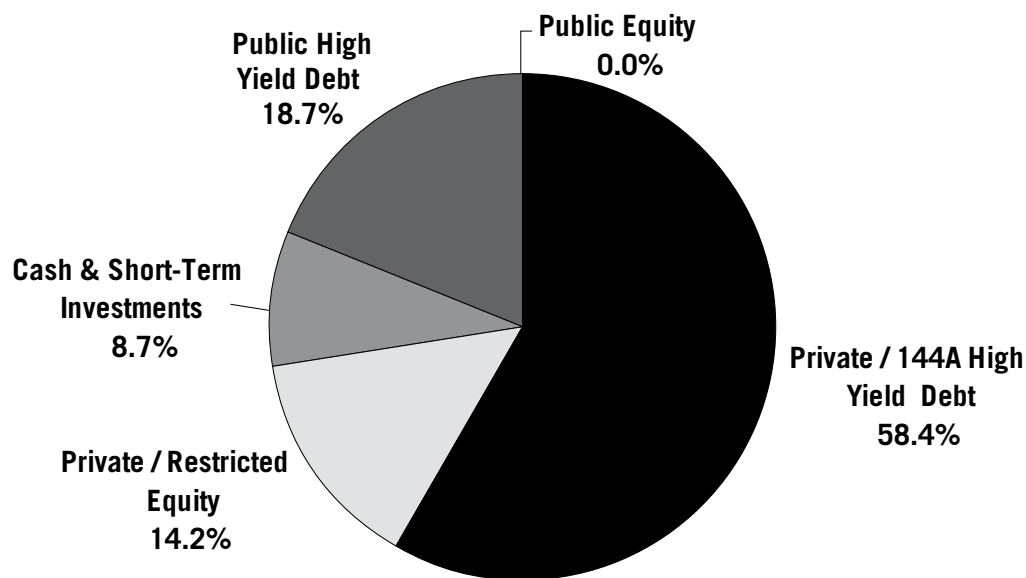
Thank you for your continued interest in and support of Babson Capital Participation Investors.

Sincerely,



Michael L. Klofas  
President

### Portfolio Composition as of 9/30/12 \*



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

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

**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

**Assets:**

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value

(Cost - \$106,946,713)

\$ 95,717,951

Corporate restricted securities at market value

(Cost - \$8,349,289)

8,580,036

Corporate public securities at market value

(Cost - \$25,166,233)

26,864,165

Short-term securities at amortized cost

8,499,843

Total investments (Cost - \$148,962,078)

139,661,995

Cash

3,916,368

Interest receivable

1,501,718

Receivable for investments sold

14,391

Other assets

29,426**Total assets****145,123,898****Liabilities:**

Note payable

15,000,000

Payable for investments purchased

1,042,628

Deferred tax liability

539,228

Investment advisory fee payable

287,820

Interest payable

27,267

Accrued expenses

306,862**Total liabilities****17,203,805****Total net assets****\$ 127,920,093****Net Assets:**

Common shares, par value \$.01 per share

\$ 101,674

Additional paid-in capital

94,840,733

Retained net realized gain on investments, prior years

33,183,269

Undistributed net investment income

3,611,666

Accumulated net realized gain on investments

6,022,062

Net unrealized depreciation of investments

(9,839,311)**Total net assets****\$ 127,920,093****Common shares issued and outstanding (14,785,750 authorized)****10,167,431****Net asset value per share****\$ 12.58**

See Notes to Consolidated Financial Statements

# CONSOLIDATED STATEMENT OF OPERATIONS

For the nine months ended September 30, 2012

(Unaudited)

## Investment Income:

Interest	\$ 9,311,928
Dividends	367,668
Other	<u>104,723</u>
<b>Total investment income</b>	<b><u>9,784,319</u></b>

## Expenses:

Investment advisory fees	844,816
Interest	460,125
Trustees' fees and expenses	340,000
Professional fees	214,900
Reports to shareholders	43,500
Custodian fees	27,000
Other	<u>24,373</u>
<b>Total expenses</b>	<b><u>1,954,714</u></b>

<b>Investment income - net</b>	<b><u>7,829,605</u></b>
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## Net realized and unrealized gain on investments:

Net realized gain on investments before taxes	4,143,346
Income tax expense	<u>(4,314)</u>
Net realized gain on investments after taxes	<u>4,139,032</u>
Net change in unrealized depreciation of investments before taxes	351,846
Net change in deferred income tax expense	<u>(37,100)</u>
Net change in unrealized depreciation of investments after taxes	<u>314,746</u>
<b>Net gain on investments</b>	<b><u>4,453,778</u></b>

<b>Net increase in net assets resulting from operations</b>	<b><u>\$ 12,283,383</u></b>
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# CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2012

(Unaudited)

Babson Capital Participation Investors

## Net decrease in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$ (463,283)
Purchases of portfolio securities	(28,869,455)
Proceeds from disposition of portfolio securities	30,938,685
Interest, dividends and other income received	7,949,031
Interest expense paid	(463,533)
Operating expenses paid	(1,373,515)
Income taxes paid	(4,314)
<b>Net cash provided by operating activities</b>	<b><u>7,713,616</u></b>

Cash flows from financing activities:

Cash dividends paid from net investment income	(9,724,641)
Receipts for shares issued on reinvestment of dividends	794,693
<b>Net cash used for financing activities</b>	<b><u>(8,929,948)</u></b>

**Net decrease in cash** (1,216,332)

Cash - beginning of year 5,132,700

**Cash - end of period** **\$ 3,916,368**

## 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>\$ 12,283,383</u></b>
Increase in investments	(5,619,033)
Increase in interest receivable	(223,571)
Increase in receivable for investments sold	(14,391)
Decrease in other assets	89,834
Increase in payable for investments purchased	1,042,628
Increase in deferred tax liability	37,100
Increase in investment advisory fee payable	17,101
Decrease in interest payable	(3,408)
Increase in accrued expenses	103,973
<b>Total adjustments to net assets from operations</b>	<b><u>(4,569,767)</u></b>
<b>Net cash provided by operating activities</b>	<b><u>\$ 7,713,616</u></b>

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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



# CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Babson Capital Participation Investors

## Selected data for each share of beneficial interest outstanding:

	For the nine months ended 09/30/2012		For the years ended December 31,			
	(Unaudited)	2011	2010	2009	2008	2007
Net asset value:						
Beginning of year	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84	\$ 12.90
Net investment income (a)	0.77	1.14	1.02	0.94	1.08	1.23
Net realized and unrealized gain (loss) on investments	0.44	0.08	0.95	(0.13)	(1.82)	(0.05)
Total from investment operations	1.21	1.22	1.97	(0.81)	0.74	1.18
Dividends from net investment income to common shareholders	(0.54)	(1.23)	(1.00)	(1.00)	(1.00)	(1.23)
Dividends from net realized gain on investments to common shareholders	-	(0.00)(b)	-	-	-	(0.02)
Increase from dividends reinvested	0.01	0.02	0.01	0.00	0.00	0.01
Total dividends	(0.53)	(1.21)	(0.99)	(1.00)	(1.00)	(1.24)
Net asset value: End of period/year	\$ 12.58	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84
Per share market value:						
End of period/year	\$ 15.59	\$ 15.85	\$ 13.88	\$ 12.20	\$ 9.05	\$ 13.18
Total investment return						
Net asset value (c)	10.46%	10.56%	18.71%	7.60%	(6.01%)	9.95%
Market value (c)	2.23%	24.16%	22.94%	40.86%	(25.36%)	(1.30%)
Net assets (in millions):						
End of period/year	\$ 127.92	\$ 120.32	\$ 119.54	\$ 108.93	\$ 110.18	\$ 126.63
Ratio of operating expenses to average net assets	1.62%(e)	1.42%	1.46%	1.41%	1.33%	1.36%
Ratio of interest expense to average net assets	0.50%(e)	0.56%	0.61%	0.63%	0.58%	0.56%
Ratio of income tax expense to average net assets (d)	0.00%(e)	0.20%	0.46%	0.00%	0.00%	0.48%
Ratio of net expenses to average net assets	2.12%(e)	2.18%	2.53%	2.04%	1.91%	2.40%
Ratio of net investment income to average net assets	8.47%(e)	9.33%	8.96%	8.55%	8.74%	9.32%
Portfolio turnover	24%	21%	27%	23%	32%	33%

(a) Calculated using average shares.

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

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

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

(e) Annualized

### Senior borrowings:

Total principal amount (in millions)	\$ 15	\$ 15	\$ 12	\$ 12	\$ 12	\$ 12
Asset coverage per \$1,000 of indebtedness	\$ 9,528	\$ 9,021	\$ 10,962	\$ 10,077	\$ 10,181	\$ 11,552

# CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(Unaudited)

Corporate Restricted Securities - 81.54%: (A)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Private Placement Investments - 74.83%</b>				
<b>A E Company, Inc.</b>				
A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.				
Common Stock (B)	184,615 shs.	11/10/09	\$ 184,615	\$ 173,352
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	<u>68,566</u>	<u>86,676</u>
			253,181	260,028
<b>A H C Holding Company, Inc.</b>				
A designer and manufacturer of boilers and water heaters for the commercial sector.				
15% Senior Subordinated Note due 2015	\$ 1,426,441	11/21/07	1,411,770	1,426,441
Limited Partnership Interest (B)	12.26% int.	11/21/07	<u>119,009</u>	<u>165,122</u>
			1,530,779	1,591,563
<b>A S A P Industries LLC</b>				
A designer and manufacturer of components used on oil and natural gas wells.				
Limited Liability Company Unit Class A-2 (B)	676 uts.	12/31/08	74,333	337,245
Limited Liability Company Unit Class A-3 (B)	608 uts.	12/31/08	<u>66,899</u>	<u>303,523</u>
			141,232	640,768
<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.				
12.75% Senior Subordinated Note due 2016	\$ 1,227,273	10/09/09	1,103,979	1,239,546
Limited Liability Company Unit Class A (B)	2,186 uts.	*	214,793	296,506
Limited Liability Company Unit Class B (B)	1,473 uts.	10/09/09	<u>144,716</u>	<u>199,795</u>
* 10/09/09 and 10/27/10.			1,463,488	1,735,847
<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	378,000
13% Senior Subordinated Note due 2015 (D)	\$ 420,000	05/15/08	384,627	-
Common Stock (B)	60,000 shs.	05/15/08	60,000	-
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	<u>35,654</u>	<u>-</u>
			894,225	378,000
<b>ABC Industries, Inc.</b>				
A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 2019	\$ 600,000	08/01/12	537,925	600,808
Preferred Stock Series A (B)	150,000 shs.	08/01/12	150,000	142,500
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	26,897 shs.	08/01/12	<u>50,935</u>	<u>269</u>
			738,860	743,577

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Advanced Technologies Holdings</b>				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	546 shs.	12/27/07	\$ 270,000	\$ 675,720
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	<u>21,600</u>	<u>34,416</u>
			291,600	710,136
<b>All Current Holding Company</b>				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$ 603,697	09/26/08	573,331	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	97,307
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	<u>46,584</u>	<u>69,193</u>
			691,218	770,197
<b>American Hospice Management Holding LLC</b>				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$ 1,687,503	*	1,665,322	1,687,503
Preferred Class A Unit (B)	1,706 uts.	**	170,600	336,093
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	93,970
Common Class B Unit (B)	16,100 uts.	01/22/04	1	-
Common Class D Unit (B)	3,690 uts.	09/12/06	<u>-</u>	<u>-</u>
			1,916,712	2,117,566
* 01/22/04 and 06/09/08.				
** 01/22/04 and 09/12/06.				
<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.				
12.5% Senior Subordinated Note due 2017	\$ 1,012,500	04/28/09	918,235	1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	98,751
Common Stock (B)	723 shs.	04/28/09	<u>723</u>	<u>44,012</u>
			1,081,227	1,155,263
<b>Arch Global Precision LLC</b>				
A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$ 766,098	12/21/11	747,852	802,826
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	37,046
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	<u>221,582</u>	<u>288,834</u>
			997,852	1,128,706

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Arrow Tru-Line Holdings, Inc.</b>				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
8% Senior Subordinated Note due 2014 (D)	\$ 1,054,025	05/18/05	\$ 964,526	\$ 895,921
Preferred Stock (B)	33 shs.	10/16/09	33,224	-
Common Stock (B)	263 shs.	05/18/05	263,298	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	69 shs.	05/18/05	<u>59,362</u>	<u>-</u>
			1,320,410	895,921
<b>Associated Diversified Services</b>				
A provider of routine maintenance and repair services primarily to electric utility companies predominantly on electric power distribution lines.				
10% Senior Secured Term Note due 2016 (C)	\$ 252,000	09/30/10	247,385	255,860
13% Senior Subordinated Note due 2017	\$ 332,000	09/30/10	302,891	332,000
Limited Liability Company Unit Class B (B)	36,000 uts.	09/30/10	36,000	44,215
Limited Liability Company Unit Class B (B)	27,520 uts.	09/30/10	<u>27,520</u>	<u>33,800</u>
			613,796	665,875
<b>Baby Jogger Holdings LLC</b>				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019	\$ 932,861	04/20/12	915,181	950,511
Common Stock (B)	754 shs.	04/20/12	<u>75,376</u>	<u>88,336</u>
			990,557	1,038,847
<b>Barcodes Group, Inc.</b>				
A distributor and reseller of automatic identification and data capture equipment, including mobile computers, scanners, point-of- sale systems, labels, and accessories.				
13.5% Senior Subordinated Note due 2016	\$ 651,735	07/27/10	628,369	658,252
Preferred Stock (B)	13 shs.	07/27/10	131,496	131,500
Common Stock Class A (B)	44 shs.	07/27/10	437	98,887
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	8 shs.	07/27/10	<u>76</u>	<u>17,160</u>
			760,378	905,799
<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	1,184,711	301,976
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	-
Common Stock (B)	1 sh.	06/30/06	152	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	164 shs.	06/30/06	<u>48,760</u>	<u>-</u>
			1,375,569	301,976

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>C D N T, Inc.</b>				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
10.5% Senior Secured Term Note due 2014	\$ 187,718	08/07/08	\$ 186,309	\$ 187,718
12.5% Senior Subordinated Note due 2015	\$ 429,070	08/07/08	407,142	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	48,060
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	<u>32,965</u>	<u>37,789</u>
			668,276	702,637
<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>567,149</u>
* 12/30/97 and 05/29/99.				
<b>CHG Alternative Education Holding Company</b>				
A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs.				
13.5% Senior Subordinated Note due 2018	\$ 731,111	01/19/11	694,916	751,460
14% Senior Subordinated Note due 2019	\$ 188,104	08/03/12	184,409	189,009
Common Stock (B)	375 shs.	01/19/11	37,500	31,967
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	<u>29,250</u>	<u>25,128</u>
			946,075	997,564
<b>Church Services Holding Company</b>				
A provider of diversified residential services to homeowners in Houston, Dallas, and Austin markets.				
14.5% Senior Subordinated Note due 2018	\$ 404,099	03/26/12	391,192	416,222
Common Stock (B)	1,327 shs.	*	132,700	189,945
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	57 shs.	03/26/12	<u>5,740</u>	<u>8,159</u>
* 03/26/12, 05/25/12 and 06/19/12.				
			529,632	614,326
<b>Clough, Harbour and Associates</b>				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	<u>146,594</u>	<u>90,972</u>
<b>Coeur, Inc.</b>				
A producer of proprietary, disposable power injection syringes.				
12% Senior Subordinated Note due 2016	\$ 642,857	10/10/08	603,968	642,857
Common Stock (B)	321 shs.	10/10/08	32,143	50,721
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	495 shs.	10/10/08	<u>48,214</u>	<u>78,031</u>
			684,325	771,609

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Connecticut Electric, Inc.</b>				
A supplier and distributor of electrical products sold into the retail and wholesale markets.				
10% Senior Subordinated Note due 2014 (D)	\$ 771,051	01/12/07	\$ 719,299	\$ 693,946
Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	82,613	16,614
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	12,018
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	135,051
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	222
			861,668	857,851
<b>Connor Sport Court International, Inc.</b>				
A designer and manufacturer of outdoor and indoor synthetic sports flooring and other temporary flooring products.				
Preferred Stock Series B-2 (B)	9,081 shs.	07/05/07	370,796	899,880
Preferred Stock Series C (B)	3,748 shs.	07/05/07	125,207	371,430
Common Stock (B)	380 shs.	07/05/07	4	-
Limited Partnership Interest (B)	6.88% int.	*	103,135	-
* 08/12/04 and 01/14/05.			599,142	1,271,310
<b>CorePharma LLC</b>				
A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.				
Warrant, exercisable until 2013, to purchase common stock at \$.001 per share (B)	10 shs.	08/04/05	72,617	575,888
<b>Crane Rental Corporation</b>				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	\$ 1,215,000	08/21/08	1,145,923	1,193,511
Common Stock (B)	135,000 shs.	08/21/08	135,000	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	72,037 shs.	08/21/08	103,143	-
			1,384,066	1,193,511
<b>Custom Engineered Wheels, Inc.</b>				
A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs.				
12.5% Senior Subordinated Note due 2016	\$ 1,025,480	10/27/09	929,568	1,044,151
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	143,394
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	104,767
Common Stock (B)	38 shs.	10/27/09	38,244	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735	-
			1,254,389	1,292,312

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>DPC Holdings LLC</b>				
A provider of accounts receivable management and revenue cycle management services to customers in the healthcare, financial and utility industries.				
14% Senior Subordinated Note due 2018	\$ 1,132,147	*	\$ 1,112,017	\$ 1,157,662
Limited Liability Company Unit Class A (B)	13,548 uts.	*	<u>135,477</u>	<u>86,345</u>
* 10/21/11 and 08/03/12.			1,247,494	1,244,007
<b>DPL Holding Corporation</b>				
A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.				
14% Senior Subordinated Note due 2019	\$ 1,031,038	05/04/12	1,011,511	1,071,620
Preferred Stock (B)	20 shs.	05/04/12	204,546	207,090
Common Stock (B)	20 shs.	05/04/12	<u>22,727</u>	<u>11,416</u>
			1,238,784	1,290,126
<b>Duncan Systems, Inc.</b>				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2013	\$ 154,286	11/01/06	153,814	153,439
13% Senior Subordinated Note due 2014	\$ 488,572	11/01/06	467,636	481,911
Common Stock (B)	102,857 shs.	11/01/06	102,857	7,934
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	<u>44,663</u>	<u>2,491</u>
			768,970	645,775
<b>E S P Holdco, Inc.</b>				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
14% Senior Subordinated Note due 2015	\$ 1,291,694	01/08/08	1,278,527	1,291,694
Common Stock (B)	349 shs.	01/08/08	<u>174,701</u>	<u>183,720</u>
			1,453,228	1,475,414
<b>E X C Acquisition Corporation</b>				
A manufacturer of pre-filled syringes and pump systems used for intravenous drug delivery.				
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	11 shs.	06/28/04	<u>40,875</u>	<u>14,003</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	850,538	959,204
Common Stock (B)	50 shs.	02/01/10	50,000	41,934
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	119 shs.	02/01/10	<u>107,100</u>	<u>99,988</u>
			1,007,638	1,101,126

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>ELT Holding Company</b>				
A provider of web-based ethics and compliance training solutions for companies in the United States.				
14% Senior Subordinated Note due 2019	\$ 919,880	03/01/12	\$ 902,711	\$ 935,478
Common Stock (B)	41 shs.	03/01/12	<u>90,909</u>	<u>67,611</u>
			993,620	1,003,089
<b>F C X Holdings Corporation</b>				
A distributor of specialty/technical valves, actuators, accessories, and process instrumentation supplying a number of industrial, high purity, and energy end markets in North America.				
15% Senior Subordinated Note due 2017	\$ 1,260,099	10/06/08	1,247,896	1,260,099
14% Senior Subordinated Note due 2017	\$ 341,433	03/02/12	335,359	358,504
Preferred Stock Series A (B)	232 shs.	*	23,200	33,367
Preferred Stock Series B (B)	2,298 shs.	10/06/08	229,804	330,504
Common Stock (B)	1,625 shs.	10/06/08	<u>1,625</u>	<u>172,866</u>
* 12/30/10 and 07/01/11.			1,837,884	2,155,340
<b>F F C Holding Corporation</b>				
A leading U.S. manufacturer of private label frozen novelty and ice cream products.				
16% Senior Subordinated Note due 2017	\$ 889,469	09/27/10	876,804	898,363
Limited Liability Company Units Preferred (B)	171 uts.	09/27/10	153,659	176,968
Limited Liability Company Units (B)	171 uts.	09/27/10	<u>17,073</u>	<u>125,154</u>
			1,047,536	1,200,485
<b>F G I Equity LLC</b>				
A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings.				
14.25% Senior Subordinated Note due 2016	\$ 448,226	12/15/10	438,550	457,191
14.25% Senior Subordinated Note due 2016	\$ 111,477	02/29/12	111,513	114,822
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	122,933
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	15,412
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	<u>15,000</u>	<u>12,187</u>
			639,100	722,545
<b>F H Equity LLC</b>				
A designer and manufacturer of a full line of automatic transmission filters and filtration systems for passenger vehicles.				
14% Senior Subordinated Note due 2017	\$ 518,337	12/20/10	501,134	518,337
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	<u>16,009</u>	<u>12,550</u>
			517,143	530,887
<b>Flutes, Inc.</b>				
An independent manufacturer of micro fluted corrugated sheet material for the food and consumer products packaging industries.				
10% Senior Secured Term Note due 2013 (D)	\$ 524,791	04/13/06	519,050	209,916
14% Senior Subordinated Note due 2013 (D)	\$ 317,177	04/13/06	<u>290,908</u>	<u>-</u>
			809,958	209,916



**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>HGGC Citadel Plastics Holdings</b>				
A world-leading source for thermoset and thermoplastic compounds.				
14% Senior Subordinated Note due 2019	\$ 909,916	02/29/12	\$ 892,939	\$ 925,333
Common Stock (B)	101 shs.	02/29/12	<u>100,806</u>	<u>95,397</u>
			993,745	1,020,730
<b>Home Décor Holding Company</b>				
A designer, manufacturer and marketer of framed art and wall décor products.				
Common Stock (B)	33 shs.	*	33,216	79,516
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	106 shs.	*	<u>105,618</u>	<u>252,815</u>
* 06/30/04 and 08/19/04.			138,834	332,331
<b>HOP Entertainment LLC</b>				
A provider of post production equipment and services to producers of television shows and motion pictures.				
Limited Liability Company Unit Class F (B)	47 uts.	10/14/11	-	-
Limited Liability Company Unit Class G (B)	114 uts.	10/14/11	-	-
Limited Liability Company Unit Class H (B)	47 uts.	10/14/11	-	-
Limited Liability Company Unit Class I (B)	47 uts.	10/14/11	<u>-</u>	<u>-</u>
			-	-
<b>Hospitality Mints Holding Company</b>				
A manufacturer of individually-wrapped imprinted promotional mints.				
14% Senior Subordinated Note due 2016	\$ 1,569,098	08/19/08	1,502,893	1,490,643
Common Stock (B)	251 shs.	08/19/08	251,163	6,029
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	<u>60,233</u>	<u>1,558</u>
			1,814,289	1,498,230
<b>HVAC Holdings, Inc.</b>				
A provider of integrated energy efficiency services and maintenance programs for HVAC systems.				
14% Senior Subordinated Note due 2019	\$ 1,136,364	09/27/12	1,113,658	1,135,361
Preferred Stock Series A (B)	1,127 shs.	09/27/12	112,726	107,065
Common Stock (B)	910 shs.	09/27/12	<u>910</u>	<u>865</u>
			1,227,294	1,243,291
<b>Ideal Tridon Holdings, Inc.</b>				
A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.				
13.5% Senior Subordinated Note due 2018	\$ 920,027	10/27/11	903,566	944,999
Common Stock (B)	93 shs.	10/27/11	<u>92,854</u>	<u>100,493</u>
			996,420	1,045,492
<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>287,519</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>International Offshore Services LLC</b>				
A leading provider of marine transportation services, platform decommissioning, and salvage services to oil and gas producers in the shallow waters of the Gulf of Mexico.				
14.25% Senior Subordinated Secured Note due 2017 (D)	\$ 1,350,000	07/07/09	\$ 1,236,405	\$ 337,500
Limited Liability Company Unit (B)	1,647 uts.	07/07/09	<u>98,833</u>	<u>-</u>
			1,335,238	337,500
<b>J A C Holding Enterprises, Inc.</b>				
A supplier of luggage racks and accessories to the original equipment manufacturers.				
12.5% Senior Subordinated Note due 2017	\$ 833,333	12/20/10	730,969	777,888
Preferred Stock A (B)	165 shs.	12/20/10	165,000	67,601
Preferred Stock B (B)	0.06 shs.	12/20/10	-	25
Common Stock (B)	33 shs.	12/20/10	1,667	-
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	12 shs.	12/20/10	<u>105,643</u>	<u>-</u>
			1,003,279	845,514
<b>Jason Partners Holdings LLC</b>				
A diversified manufacturing company serving various industrial markets.				
Limited Liability Company Unit (B)	48 uts.	09/21/10	<u>449,086</u>	<u>25,511</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 2017	\$ 873,913	12/23/11	857,762	908,590
Preferred Stock Series A (B)	102 shs.	12/23/11	96,578	96,577
Preferred Stock Series B (B)	29 shs.	12/23/11	27,335	27,332
Common Stock (B)	130 shs.	12/23/11	<u>6,522</u>	<u>17,362</u>
			988,197	1,049,861
<b>K N B Holdings Corporation</b>				
A designer, manufacturer and marketer of products for the custom framing market.				
15% Senior Subordinated Note due 2017	\$ 2,218,493	*	2,051,724	2,218,493
Common Stock (B)	71,053 shs.	05/25/06	71,053	41,671
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	<u>37,871</u>	<u>25,571</u>
			2,160,648	2,285,735
* 05/25/06 and 04/12/11.				
<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.				
15% Senior Subordinated Note due 2017	\$ 909,583	12/10/10	895,135	929,655
Common Stock (B)	232,826 shs.	12/10/10	<u>232,826</u>	<u>173,346</u>
			1,127,961	1,103,001

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>K P I Holdings, Inc.</b>				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
12.75% Senior Subordinated Note due 2015	\$ 1,425,140	07/16/08	\$ 1,355,451	\$ 1,353,883
Convertible Preferred Stock Series C (B)	29 shs.	06/30/09	29,348	58,000
Convertible Preferred Stock Series D (B)	13 shs.	09/17/09	12,958	38,880
Common Stock (B)	235 shs.	07/15/08	234,783	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	-	-
			<u>1,683,376</u>	<u>1,450,763</u>
<b>K W P I Holdings Corporation</b>				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
12% Senior Subordinated Note due 2015 (D)	\$ 1,674,246	03/14/07	1,523,455	-
Preferred Stock PIK (B)	793 shs.	02/07/11	306,750	-
Common Stock (B)	123 shs.	03/13/07	123,000	-
Warrant, exercisable until 2019, to purchase preferred stock at \$.01 per share (B)	71 shs.	07/07/09	-	-
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)	89 shs.	03/14/07	85,890	-
			<u>2,039,095</u>	<u>-</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.				
13.5% Senior Subordinated Note due 2018	\$ 1,157,755	08/15/11	1,137,155	1,180,911
Common Stock (B)	105 shs.	08/15/11	105,019	88,259
			<u>1,242,174</u>	<u>1,269,170</u>
<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	65,047
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	09/12/08	34,714	70,249
			<u>66,857</u>	<u>135,296</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	241,089
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	1,787 shs.	05/04/07	22,781	33,755
			<u>189,262</u>	<u>274,844</u>

\* 05/04/07 and 01/02/08.

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>MEGTEC Holdings, Inc.</b>				
A supplier of industrial and environmental products and services to a broad array of industries.				
Preferred Stock (B)	56 shs.	09/24/08	\$ 54,040	\$ 78,400
Limited Partnership Interest (B)	0.74% int.	09/16/08	205,932	244,416
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	18 shs.	09/24/08	<u>18,237</u>	<u>13,635</u>
			278,209	336,451
<b>Merex Holding Corporation</b>				
A provider of after-market spare parts and components, as well as Maintenance, Repair and Overhaul services for "out of production" or "legacy" aerospace and defense systems that are no longer effectively supported by the original equipment manufacturers.				
14% Senior Subordinated Note due 2018	\$ 424,528	09/22/11	416,821	437,264
Limited Liability Company Unit Series B (B)	155,945 uts.	09/22/11	<u>155,945</u>	<u>-</u>
			572,766	437,264
<b>MicroGroup, Inc.</b>				
A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.				
12% Senior Subordinated Note due 2013 (D)	\$ 1,421,795	*	1,364,411	355,449
Common Stock (B)	238 shs.	*	238,000	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	87 shs.	*	<u>86,281</u>	<u>-</u>
* 08/12/05 and 09/11/06.			1,688,692	355,449
<b>Monessen Holding Corporation</b>				
A designer and manufacturer of a broad line of gas, wood, and electric hearth products and accessories.				
15% Senior Subordinated Note due 2015 (D)	\$ 823,794	06/28/11	547,745	-
7% Senior Subordinated Note due 2014 (D)	\$ 1,350,000	06/28/11	1,281,479	-
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	81 shs.	03/31/06	<u>73,125</u>	<u>-</u>
			1,902,349	-
<b>Motion Controls Holdings</b>				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated Note due 2017	\$ 936,232	11/30/10	922,116	954,957
Limited Liability Company Unit Class B-1 (B)	93,750 uts.	11/30/10	-	83,385
Limited Liability Company Unit Class B-2 (B)	8,501 uts.	11/30/10	<u>-</u>	<u>7,561</u>
			922,116	1,045,903
<b>NABCO, Inc.</b>				
A producer of explosive containment vessels in the United States.				
14% Senior Subordinated Note due 2014 (D)	\$ 330,882	02/24/06	306,091	82,720
Limited Liability Company Unit (B)	437 uts.	*	436,984	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	68 shs.	02/24/06	<u>19,687</u>	<u>-</u>
* 02/24/06 and 06/22/07.			762,762	82,720

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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	\$ 972,522	\$ 955,316
Limited Partnership Interest of Saw Mill PCG Partners LLC (B)	1.38% int.	02/01/07	588,077	-
Limited Liability Company Unit Class D of Saw Mill PCG Partners LLC (B)	9 uts.	*	8,873	-
Limited Liability Company Unit Class D-1 of Saw Mill PCG Partners LLC (B)	121 uts.	09/30/09	121,160	-
Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	<u>34,547</u>	<u>-</u>
* 12/18/08 and 09/30/09.			1,725,179	955,316
<b>Nicoat Acquisitions LLC</b>				
A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications.				
12.5% Senior Subordinated Note due 2016	\$ 482,759	11/05/10	448,102	492,414
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	19,688
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	39,888
Limited Liability Company Unit Series F (B)	52,172 uts.	11/05/10	<u>-</u>	<u>121,528</u>
			500,274	673,518
<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	*	1,290,451	1,497,467
Limited Partnership Interest (B)	1,740 uts.	*	174,006	43,580
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	2,605 shs.	*	<u>260,479</u>	<u>65,238</u>
* 07/09/09 and 08/09/10.			1,724,936	1,606,285
<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	821,861	900,779
Common Stock (B)	126 shs.	*	125,883	109,176
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	59 shs.	02/02/11	<u>52,987</u>	<u>50,954</u>
* 02/02/11 and 06/30/11.			1,000,731	1,060,909

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>O E C Holding Corporation</b>				
A provider of elevator maintenance, repair and modernization services.				
13% Senior Subordinated Note due 2017	\$ 444,445	06/04/10	\$ 413,362	\$ 443,455
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	21,510
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	12,095
Common Stock (B)	344 shs.	06/04/10	<u>344</u>	<u>-</u>
			500,185	477,060
<b>Ontario Drive &amp; Gear Ltd.</b>				
A manufacturer of all-wheel drive, off-road amphibious vehicles and related accessories.				
Limited Liability Company Unit (B)	1,942 uts.	01/17/06	302,885	793,840
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	328 shs.	01/17/06	<u>90,424</u>	<u>134,029</u>
			393,309	927,869
<b>P K C Holding Corporation</b>				
A manufacturer of plastic film and badges for the general industrial, medical, and food industries.				
14% Senior Subordinated Note due 2016	\$ 1,608,562	12/21/10	1,581,430	1,640,733
Preferred Stock Class A (B)	29 shs.	12/21/10	180,380	274,388
Common Stock (B)	29 shs.	12/21/10	<u>13,500</u>	<u>-</u>
			1,775,310	1,915,121
<b>P P T Holdings LLC</b>				
A high-end packaging solutions provider that targets customers who have multiple packaging needs, require a high number of low volume SKUs, short lead times, technical expertise, and overall supply chain management.				
15% Senior Subordinated Note due 2017	\$ 942,279	12/20/10	927,458	941,602
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	72,456
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	<u>1,072</u>	<u>72,456</u>
			1,034,601	1,086,514
<b>Pacific Consolidated Holdings LLC</b>				
A manufacturer of rugged, mobile liquid and gaseous oxygen and nitrogen generating systems used in the global defense, oil and gas, and medical sectors.				
14% Senior Subordinated Note due 2012 (D)	\$ 737,784	04/27/07	719,555	258,224
5% Senior Subordinated Note due 2012	\$ 42,187	07/21/10	42,187	42,187
Preferred Shares Series E (B)	42,187 uts.	07/21/10	-	-
Limited Liability Company Unit (B)	928,962 uts.	04/27/07	<u>33,477</u>	<u>-</u>
			795,219	300,411
<b>Paradigm Packaging, Inc.</b>				
A manufacturer of plastic bottles and closures for the nutritional, pharmaceutical, personal care, and food packaging markets.				
12% Senior Subordinated Note due 2015	\$ 843,750	12/19/00	841,998	843,750
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	197 shs.	12/21/00	<u>140,625</u>	<u>-</u>
			982,623	843,750



**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>RM Holding Company</b>				
A specialty distributor of home medical care equipment.				
13% Senior Subordinated Note due 2018	\$ 460,318	02/09/12	\$ 434,064	\$ 472,655
Common Stock (B)	369 shs.	02/09/12	4	35,829
Preferred Stock Series (B)	39,679 shs.	02/09/12	39,678	41,258
Warrant, exercisable until 2022, to purchase preferred stock A at \$.01 per share (B)	12,088 shs.	02/09/12	11,980	12,472
Warrant, exercisable until 2022, to purchase preferred stock B at \$.01 per share (B)	7,067 shs.	02/09/12	7,067	7,349
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	185 shs.	02/09/12	-	17,965
			<u>492,793</u>	<u>587,528</u>
<b>Royal Baths Manufacturing Company</b>				
A manufacturer and distributor of acrylic and cultured marble bathroom products.				
12.5% Senior Subordinated Note due 2016	\$ 281,250	11/14/03	277,125	281,250
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	74 shs.	11/14/03	65,089	51,011
			<u>342,214</u>	<u>332,261</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	\$ 656,250	03/30/12	646,933	684,486
Preferred Stock Series (B)	2,098 shs.	03/30/12	83,920	85,904
Common Stock (B)	983 shs.	03/30/12	9,830	16,740
			<u>740,683</u>	<u>787,130</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	826,004	-
<b>Smart Source Holdings LLC</b>				
A short-term computer rental company.				
12% Senior Subordinated Note due 2015	\$ 1,176,924	*	1,121,846	1,176,924
Limited Liability Company Unit (B)	328 uts.	*	334,371	323,446
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	83 shs.	*	87,231	81,929
			<u>1,543,448</u>	<u>1,582,299</u>

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>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.				
14.5% Senior Subordinated Note due 2014 (D)	\$ 1,300,003	10/26/07	\$ 1,136,835	\$ 1,235,003
Series B Preferred Stock (B)	97 shs.	03/31/10	-	713
Common Stock (B)	273 shs.	03/31/10	219,203	-
			1,356,038	1,235,716
<b>Transpac Holding Company</b>				
A designer, importer, and wholesaler of home décor and seasonal gift products.				
12% Senior Subordinated Note due 2015	\$ 938,651	10/31/07	890,159	948,038
Common Stock (B)	110 shs.	10/31/07	110,430	28,724
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	50 shs.	10/31/07	46,380	12,969
			1,046,969	989,731
<b>Tranzonic Companies (The)</b>				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
13% Senior Subordinated Note due 2015	\$ 542,400	02/05/98	540,720	542,400
Common Stock (B)	315 shs.	02/04/98	315,000	346,692
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	222 shs.	02/05/98	184,416	244,335
			1,040,136	1,133,427
<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 2013	\$ 1,222,698	*	1,154,328	1,192,610
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	105,708
Common Stock (B)	393 shs.	*	423,985	-
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	81 shs.	*	84,650	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	558 shs.	10/20/08	-	-
			1,790,640	1,298,318
* 07/19/05 and 12/22/05.				
<b>TruStile Doors, Inc.</b>				
A manufacturer and distributor of interior doors.				
Limited Liability Company Unit	5,888 uts.	02/28/11	125,000	173,696
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	3,060 shs.	04/11/03	36,032	15,334
			161,032	189,030

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

<b>Corporate Restricted Securities: (A) (Continued)</b>	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<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	\$ 72,518
Common Stock (B)	353 shs.	06/08/10	<u>353</u>	<u>36,364</u>
			70,661	108,882
<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	738,692	810,411
Common Stock (B)	205 shs.	12/16/10	205,480	167,785
Warrant, exercisable until 2018, to purchase common stock at \$.02 per share (B)	55 shs.	12/16/10	<u>49,334</u>	<u>45,090</u>
			993,506	1,023,286
<b>Workplace Media Holding Company</b>				
A direct marketer specializing in providing advertisers with access to consumers in the workplace.				
13% Senior Subordinated Note due 2015 (D)	\$ 654,247	05/14/07	601,454	-
Limited Partnership Interest (B)	12.26% int.	05/14/07	61,308	-
Warrant, exercisable until 2015, to purchase common stock at \$.02 per share (B)	47 shs.	05/14/07	<u>44,186</u>	-
			706,948	-
<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	\$ 869,526	11/03/11	853,857	877,579
Common Stock (B)	1,500 shs.	11/03/11	<u>150,000</u>	<u>105,844</u>
			1,003,857	983,423
<b>Total Private Placement Investments (E)</b>			<b><u>\$ 106,946,713</u></b>	<b><u>\$ 95,717,951</u></b>

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

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



**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

**September 30, 2012****(Unaudited)**

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

<b>Corporate Public Securities (A)</b>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>
<b>Common Stock - 0.02%</b>					
Intrepid Potash, Inc. (B)			185	\$ 5,920	\$ 3,974
Nortek, Inc. (B)			100	1	5,473
Rue21, Inc. (B)			350	6,650	10,903
<b>Total Common Stock</b>				<u>12,571</u>	<u>20,350</u>
<b>Total Corporate Public Securities</b>				<u>\$ 25,166,233</u>	<u>\$ 26,864,165</u>
<b>Short-Term Securities:</b>					
<b>Commercial Paper - 6.64%</b>	<u>Interest Rate/Yield<sup>^</sup></u>	<u>Due Date</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>
Ecolab, Inc.	0.370 %	10/05/12	\$ 2,250,000	\$ 2,250,000	\$ 2,250,000
Kinder Morgan Energy Partners, L.P.	0.450	10/04/12	2,000,000	1,999,925	1,999,925
WPP CP Finance Plc	0.470	10/02/12	2,000,000	1,999,974	1,999,974
Xstrata Finance Canada Limited	0.450	10/03/12	2,250,000	2,249,944	2,249,944
<b>Total Short-Term Securities</b>				<u>\$ 8,499,843</u>	<u>\$ 8,499,843</u>
<b>Total Investments</b>	<b>109.18 %</b>			<u>\$ 148,962,078</u>	<u>\$ 139,661,995</u>
Other Assets	4.27				5,461,903
Liabilities	(13.45)				(17,203,805)
<b>Total Net Assets</b>	<u>100.00 %</u>				<u>\$ 127,920,093</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 September 30, 2012.

(D) Defaulted security; interest not accrued.

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

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

PIK - Payment-in-kind

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

<b>Industry Classification:</b>	<u>Fair Value/ Market Value</u>	<u>Fair Value/ Market Value</u>	
<b>AEROSPACE - 2.59%</b>		<b>BUILDINGS &amp; REAL ESTATE - 1.70%</b>	
A E Company, Inc.	\$ 260,028	Duke Realty Limited Partnership	\$ 508,480
Alliant Techsystems Inc.	545,000	K W P I Holdings Corporation	-
B E Aerospace, Inc.	277,500	Masco Corporation	398,411
Merex Holding Corporation	437,264	Sunrise Windows Holding Company	1,073,668
Visioneering, Inc.	765,567	TruStile Doors, Inc.	<u>189,030</u>
Whitcraft Holdings, Inc.	<u>1,023,286</u>		<u>2,169,589</u>
	<u>3,308,645</u>	<b>CHEMICAL, PLASTICS &amp; RUBBER - 1.96%</b>	
<b>AUTOMOBILE - 5.71%</b>		Ashland Inc.	511,250
Accuride Corp	513,750	Capital Specialty Plastics, Inc.	567,149
Avis Budget Car Rental	428,437	Nicoat Acquisitions LLC	673,518
DPL Holding Corporation	1,290,126	Omnova Solutions, Inc.	<u>757,500</u>
F H Equity LLC	530,887		<u>2,509,417</u>
J A C Holding Enterprises, Inc.	845,514	<b>CONSUMER PRODUCTS - 9.39%</b>	
Jason Partners Holdings LLC	25,511	Baby Jogger Holdings LLC	1,038,847
Johnson Controls, Inc.	573,049	Bravo Sports Holding Corporation	301,976
K & N Parent, Inc.	1,049,861	Custom Engineered Wheels, Inc.	1,292,312
Ontario Drive & Gear Ltd.	927,869	Ecolab, Inc.	2,250,000
Penske Corporation	499,119	Handi Quilter Holding Company	551,556
Qualis Automotive LLC	<u>623,439</u>	K N B Holdings Corporation	2,285,735
	<u>7,307,562</u>	Manhattan Beachwear Holding Company	936,590
<b>BEVERAGE, DRUG &amp; FOOD - 5.68%</b>		Perry Ellis International, Inc.	388,125
Eatem Holding Company	1,101,126	R A J Manufacturing Holdings LLC	845,543
F F C Holding Corporation	1,200,485	Tranzonic Companies (The)	1,133,427
Golden County Foods Holding, Inc.	-	WP Supply Holding Corporation	<u>983,423</u>
Hospitality Mints Holding Company	1,498,230		<u>12,007,534</u>
Kraft Foods, Inc.	603,183	<b>CONTAINERS, PACKAGING &amp; GLASS - 4.35%</b>	
Snacks Parent Corporation	1,016,402	Flutes, Inc.	209,916
Spartan Foods Holding Company	1,170,747	P K C Holding Corporation	1,915,121
Specialty Commodities, Inc.	149,684	P P T Holdings LLC	1,086,514
Tyson Foods, Inc.	<u>523,750</u>	Paradigm Packaging, Inc.	843,750
	<u>7,263,607</u>	Sealed Air Corporation	535,000
<b>BROADCASTING &amp; ENTERTAINMENT - 0.92%</b>		Vitex Packaging Group, Inc.	<u>973,342</u>
HOP Entertainment LLC	-		<u>5,563,643</u>
NBC Universal Media LLC	592,541		
Time Warner Cable, Inc.	579,686		
Sundance Investco LLC	-		
Workplace Media Holding Company	<u>-</u>		
	<u>1,172,227</u>		

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

September 30, 2012

(Unaudited)

<b>Industry Classification:</b> (Continued)	<u>Fair Value/ Market Value</u>	<u>Fair Value/ Market Value</u>	
<b>FINANCIAL SERVICES - 8.01%</b>		<b>HOME &amp; OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 4.16%</b>	
Ally Financial, Inc.	\$ 783,962	Connor Sport Court International, Inc.	\$ 1,271,310
Alta Mesa Financial Services	750,000	H M Holding Company	90,675
CIT Group, Inc.	520,202	Home Décor Holding Company	332,331
Citigroup, Inc.	512,233	Monessen Holding Corporation	-
DPC Holdings LLC	1,244,007	Royal Baths Manufacturing Company	332,261
GATX Corporation	535,430	Steelcase, Inc.	537,227
General Electric Capital Corporation	591,508	Transpac Holding Company	989,731
Goldman Sachs Group, Inc.	515,908	U-Line Corporation	185,488
Morgan Stanley	544,245	U M A Enterprises, Inc.	760,487
WPP CP Finance Plc	1,999,974	Wellborn Forest Holding Company	<u>820,125</u>
Xstrata Finance Canada Limited	<u>2,249,944</u>		<u>5,319,635</u>
	<u>10,247,413</u>	<b>LEISURE, AMUSEMENT, ENTERTAINMENT - 0.86%</b>	
<b>HEALTHCARE, EDUCATION &amp; CHILDCARE - 7.74%</b>		Brunswick Corporation	506,250
Alere, Inc.	320,250	International Game Technology	<u>599,743</u>
American Hospice Management Holding LLC	2,117,566		<u>1,105,993</u>
CHG Alternative Education Holding Company	997,564	<b>MACHINERY - 5.54%</b>	
DaVita, Inc.	520,000	A S A P Industries LLC	640,768
Healthcare Direct Holding Company	764,249	ABC Industries, Inc.	743,577
HealthSouth Corporation	546,250	Arch Global Precision LLC	1,128,706
Marshall Physicians Services LLC	495,909	E S P Holdco, Inc.	1,475,414
Qwest Diagnostic, Inc.	559,335	M V I Holding, Inc.	135,296
SouthernCare Holdings, Inc.	1,027,991	Motion Controls Holdings	1,045,903
Strata/WLA Holding Corporation	1,000,395	NetShape Technologies, Inc.	955,316
Synteract Holdings Corporation	1,441,814	Pacific Consolidated Holdings LLC	300,411
Touchstone Health Partnership	-	Thermadyne Holdings Corporation	266,250
Wheaton Holding Corporation	<u>108,882</u>	Welltec A/S	<u>390,000</u>
	<u>9,900,205</u>		<u>7,081,641</u>
		<b>MEDICAL DEVICES/BIOTECH - 3.72%</b>	
		Coeur, Inc.	771,609
		E X C Acquisition Corporation	14,003
		ETEX Corporation	-
		Health Management Association	272,500
		MedSystems Holdings LLC	735,610
		MicroGroup, Inc.	355,449
		NT Holding Company	1,060,909
		Precision Wire Holding Company	1,555,640
		TherOX, Inc.	<u>-</u>
			<u>4,765,720</u>

**CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value
<b>MINING, STEEL, IRON &amp; NON-PRECIOUS METALS - 1.26%</b>		
Alcoa, Inc.	\$ 662,140	
FMG Resources	248,750	
Peabody Energy Corporation	500,000	
T H I Acquisition, Inc.	<u>206,909</u>	
	<u>1,617,799</u>	
<b>NATURAL RESOURCES - 2.20%</b>		
ArcelorMittal	496,725	
Headwaters, Inc.	309,575	
Intrepid Potash, Inc.	3,974	
Kinder Morgan Energy Partners, L.P.	<u>1,999,925</u>	
	<u>2,810,199</u>	
<b>OIL &amp; GAS - 7.23%</b>		
Bill Barrett Corporation	513,750	
Calumet Specialty Products Partners L.P.	941,875	
Chesapeake Energy Corporation	375,938	
Coffeyville Resources LLC	27,755	
Continental Resources, Inc.	522,500	
EnSCO PLC	640,142	
Everest Acquisition LLC/Everest Acquisition Finance, Inc.	545,000	
Hilcorp Energy Company	357,500	
International Offshore Services LLC	337,500	
MBWS Ultimate Holdco, Inc.	1,954,050	
MEG Energy Corporation	533,750	
Niska Gas Storage Partners LLC	516,250	
Northern Tier Energy LLC	319,740	
Precision Drilling Corporation	266,250	
Samson Investment Company	360,500	
Unit Corporation	516,250	
Weatherford International Limited	<u>522,913</u>	
	<u>9,251,663</u>	
<b>PHARMACEUTICALS - 0.66%</b>		
CorePharma LLC	575,888	
Valeant Pharmaceuticals International	<u>263,125</u>	
	<u>839,013</u>	
<b>RETAIL STORES - 0.01%</b>		
Rue21, Inc.	<u>10,903</u>	
<b>TECHNOLOGY - 1.80%</b>		
Avaya, Inc.		\$ 465,000
First Data Corporation		257,812
Sencore Holding Company		-
Smart Source Holdings LLC		<u>1,582,299</u>
		<u>2,305,111</u>
<b>TELECOMMUNICATIONS - 2.23%</b>		
All Current Holding Company		770,197
CCO Holdings Capital Corporation		502,500
Centurytel, Inc.		533,199
Cequel Communications Holdings I LLC		533,750
Sprint Nextel Corporation		<u>515,000</u>
		<u>2,854,646</u>
<b>TRANSPORTATION - 1.05%</b>		
CHC Helicopter SA		1,027,500
Hertz Corporation		232,100
NABCO, Inc.		<u>82,720</u>
		<u>1,342,320</u>
<b>WASTE MANAGEMENT / POLLUTION - 1.44%</b>		
Terra Renewal LLC		605,460
Torrent Group Holdings, Inc.		<u>1,235,716</u>
		<u>1,841,176</u>
<b>Total Investments - 109.18%</b>		<b><u>\$ 139,661,995</u></b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 1. History

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

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

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

## 2. Significant Accounting Policies

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

### A. Fair Value Measurements:

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

### Determination of Fair Value

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

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

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

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

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



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

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

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

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

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

**Short-Term Securities**

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

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

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

	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range</b>
<b>Corporate Bonds</b>	Discounted Cash Flows	Discount Rate	5.7% to 15.5%
<b>Equity Securities</b>	Market Approach	Valuation Multiple	1.9x to 10.0x
		Discount for lack of marketability	0% to 5%

**Fair Value Hierarchy**

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

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)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

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

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

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

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

### B. Accounting for Investments:

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

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

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

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

### **C. Use of Estimates:**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **D. Federal Income Taxes:**

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

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

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

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

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

### **E. Distributions to Shareholders:**

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

## **3. Investment Advisory and Administrative Services Contract**

### **A. Services:**

Under an Investment Advisory and Administrative Services Contract (the "Contract") with the Trust, Babson Capital has agreed to use its best efforts to present to the Trust a continuing and suitable investment program consistent with the investment objectives and policies of the Trust. Babson Capital represents the Trust in any negotiations with issuers, investment banking firms, securities brokers or dealers and other institutions or investors relating to the Trust's investments. Under the Contract, Babson Capital also provides administration of the day-to-day operations of the Trust and provides the Trust with office space and office equipment, accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

### **B. Fee:**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

### 4. Senior Indebtedness

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

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

### 5. Purchases and Sales of Investments

**For the nine  
months ended  
09/30/2012**

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

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of September 30, 2012. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of September 30, 2012 is \$9,300,083 consists of \$13,661,402 appreciation and \$22,961,485 depreciation.

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

### 6. Quarterly Results of Investment Operations

March 31, 2012

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

June 30, 2012

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

September 30, 2012

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

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## Members of the Board of Trustees

Donald Glickman  
Robert E. Joyal  
William J. Barrett  
Michael H. Brown\*  
Donald E. Benson\*  
Clifford M. Noreen  
Martin T. Hart  
Maleyne M. Syracuse\*  
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\*Member of the Audit Committee

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Vice President  
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Treasurer  
John T. Davitt, Jr.  
Comptroller  
Melissa M. LaGrant  
Chief Compliance Officer

## DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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

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

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

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

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

Any questions regarding the Plan should be addressed to DST Systems, Inc., Agent for Babson Capital Participation Investors' Dividend Reinvestment and Cash Purchase Plan, P.O. Box 219086, Kansas City, MO 64121-9086.



**Babson Capital  
Participation Investors**