

BABSON CAPITAL PARTICIPATION INVESTORS
Form N-CSRS
September 05, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-5531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

1500 Main Street, P.O. Box 15189, Springfield, MA 01115-5189

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis, Vice President and Secretary
1500 Main Street, Suite 2800, P.O. Box 15189, Springfield, MA 01115-5189

(Name and address of agent for service)

Registrant's telephone number, including area code: 413-226-1000

Date of fiscal year end: 12/31

Date of reporting period: 06/30/12

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection and policymaking roles.

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A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 110 F Street NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORT TO STOCKHOLDERS.

Attached hereto is the semi-annual shareholder report transmitted to shareholders pursuant to Rule 30e-1 of the Investment Company Act of 1940, as amended.



Adviser

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

Transfer Agent & Registrar

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

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Internet Website

www.babsoncapital.com/mpv

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

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

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

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

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>.

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.

Babson Capital Participation Investors

TO OUR SHAREHOLDERS

July 31, 2012

We are pleased to present the June 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 August 10, 2012 to shareholders of record on July 30, 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 second quarter of 2012, compared to 27 cents per share in the previous quarter.

During the second quarter, the net assets of the Trust increased to \$124,331,897 or \$12.25 per share compared to \$123,221,791 or \$12.16 per share on March 31, 2012. This translates into a 3.0% 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 8.1%, 13.4%, 8.0%, and 13.0% 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 decreased 3.7% during the quarter, from \$14.96 per share as of March 31, 2012 to \$14.40 per share as of June 30, 2012. The Trust's market price of \$14.40 per share equates to a 17.6% premium over the June 30, 2012 net asset value per share of \$12.25. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 15.6%, 8.7% and 10.1%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, decreased 3.5% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 1.8% for the quarter.

The Trust closed two new private placement investments during the second quarter. The two new investments were in Baby Jogger Holdings LLC and DPL 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 two transactions was \$2,218,431.

U.S. middle market buyout activity continued at a sluggish pace during the second quarter of 2012. While there is a shortage of quality deal flow, there is plenty of equity capital and senior and mezzanine debt looking to be invested. The result is that attractive companies are being aggressively pursued by buyers and lenders alike, pushing both purchase price multiples and leverage levels up. As we head into the third quarter of 2012, most market participants expect deal flow to improve over the remainder of the year, due to the abundant supply of debt and equity capital, and the proposed changes in capital-gains tax rates due to be enacted in 2013. Our deal flow did pick up late in the second quarter and has remained strong early in the third quarter. We have a number of deals under review and anticipate that our new investment activity in the third and fourth quarters will increase from the second quarter. We continue to be cautious, though, in light of the more aggressive leverage multiples and mezzanine pricing we are seeing in the market. We intend to maintain the same discipline and investment philosophy, based on taking prudent levels of risk and getting paid appropriately for the risks taken, that has served us well for so many years.

We continue to be pleased with the operating performance of most of our portfolio companies. Realization activity for the Trust also remains strong. We had two companies sold for nice gains in the second quarter, OakRiver Technology, Inc. and Xaloy Superior Holdings, Inc. The Xaloy realization is particularly noteworthy. Due to the company's weak performance, at year-end 2009 we valued our subordinated notes at 50% of par, and our equity investment at zero. Due to the efforts of the private equity sponsor and Xaloy's management team, and a recovery in the economy, the company's performance improved dramatically. When the company was sold in June, our

(Continued)

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subordinated notes were repaid in full and we received over three times the cost of our equity investment. We have a healthy backlog of companies in the process of being sold and we expect 2012 to be a good year for realizations. Refinancing activities, 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 lower interest rates and credit availability. We had four full prepayments and one partial prepayment during the second quarter. 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 had a positive impact on net investment income. We will need to maintain a robust level of new investment activity in the face of expected high levels of realization and refinancing activity.

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

Sincerely,

Michael L. Klofas
President

Portfolio Composition as of 6/30/12 *

* 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.

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CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

Babson Capital Participation Investors

June 30, 2012

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value

(Cost - \$109,754,652)

\$97,492,801

Corporate restricted securities at market value

(Cost - \$5,479,508)

5,485,927

Corporate public securities at market value

(Cost - \$18,994,754)

20,140,688

Short-term securities at amortized cost

13,170,654

Total investments (Cost - \$147,399,568)

136,290,070

Cash

4,482,070

Interest receivable

1,168,568

Receivable for investments sold

304,626

Other assets

35,726

Total assets

142,281,060

Liabilities:

Note payable

15,000,000

Payable for investments purchased

2,050,703

Deferred tax liability

350,547

Investment advisory fee payable

279,747

Interest payable

27,267

Accrued expenses

240,899

Total liabilities

17,949,163

Total net assets

124,331,897

Net Assets:

Common shares, par value \$.01 per share

\$ 101,521

Additional paid-in capital

94,619,851

Retained net realized gain on investments, prior years

33,183,269

Undistributed net investment income

3,819,433

Accumulated net realized gain on investments

4,067,868

Net unrealized depreciation of investments

(11,460,045)

Total net assets

124,331,897

Common shares issued and outstanding (14,785,750 authorized)

10,152,113

Net asset value per share

12.25

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2012

(Unaudited)

Investment Income:	
Interest	\$6,155,433
Dividends	336,841
Other	87,167
Total investment income expenses:	6,579,441
Expenses:	
Investment advisory fees	556,996
Interest	306,750
Trustees' fees and expenses	220,000
Professional fees	138,100
Reports to shareholders	30,000
Custodian fees	18,000
Other	13,293
Total expenses	1,283,139
Investment income - net	5,296,302
Net realized and unrealized gain/loss on investments:	
Net realized gain on investments before taxes	2,185,012
Income tax expense	(174)
Net realized gain on investments after taxes	2,184,838
Net change in unrealized depreciation of investments before taxes	(1,457,569)
Net change in deferred income tax expense	151,581
Net change in unrealized depreciation of investments after taxes	(1,305,988)
Net gain on investments	878,850
Net increase in net assets resulting from operations	\$6,175,152

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Babson Capital Participation Investors

For the six months ended June 30, 2012

(Unaudited)

Net decrease in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$(5,146,136)
Purchases of portfolio securities	(14,042,005)
Proceeds from disposition of portfolio securities	20,943,086
Interest, dividends and other income received	5,244,021
Interest expense paid	(310,158)
Operating expenses paid	(929,351)
Income taxes paid	(174)

Net cash provided by operating activities	5,759,283
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Cash flows from financing activities:

Cash dividends paid from net investment income	(6,983,571)
Receipts for shares issued on reinvestment of dividends	573,658
Net cash used for financing activities	(6,409,913)

Net decrease in cash	(650,630)
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Cash - beginning of year	5,132,700
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Cash - end of period	\$4,482,070
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Reconciliation of net increase in net assets to net cash provided by operating activities:

Net increase in net assets resulting from operations	\$6,175,152
Increase in investments	(2,247,108)
Decrease in interest receivable	
Increase in receivable for investments sold	109,579
Decrease in other assets	
Increase in payable for investments purchased	83,534
Decrease in deferred tax liability	
Increase in investment advisory fee payable	
Decrease in interest payable	(3,408)
Increase in accrued expenses	38,010

Total adjustments to net assets from operations	(415,869)
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Net cash provided by operating activities	\$5,759,283
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See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the six months ended 6/30/2012 (Unaudited)	For the year ended 12/31/2011
Increase in net assets:		
Operations:		
Investment income - net	\$5,296,302	\$11,526,972
Net realized gain on investments after taxes	2,184,838	627,341
Net change in unrealized depreciation of investments after taxes	(1,305,988)	166,242
Net increase in net assets resulting from operations	6,175,152	12,320,555
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2012 - 40,227; 2011 - 61,615)	573,658	871,579
Dividends to shareholders from:		
Net investment income (2012 - \$0.27 per share; 2011 - \$1.23 per share)	(2,736,579)	(12,387,295)
Net realized gains (2012 - \$0.00 per share; 2011 - \$0.00 per share)	-	(25,408)
Total increase in net assets	4,012,231	779,431
Net assets, beginning of year	120,319,666	119,540,235
Net assets, end of period/year (including undistributed net investment income of \$3,819,433 and \$1,259,710, respectively)	\$124,331,897	120,319,666

See Notes to Consolidated Financial Statements

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CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Babson Capital Participation Investors

Selected data for each share of beneficial interest outstanding:

	For the six months ended 06/30/2012 (Unaudited)	For the years ended December 31,					2008	2007
		2011	2010	2009				
Net asset value:								
Beginning of year	\$ 11.90	\$11.89	\$10.91	\$11.10	\$12.84	\$12.90		
Net investment income (a)	0.52	1.14	1.02	0.94	1.08	1.23		
Net realized and unrealized gain (loss) on investments	0.09	0.08	0.95	(0.13)	(1.82)	(0.05)		
Total from investment operations	0.61	1.22	1.97	(0.81)	0.74	1.18		
Dividends from net investment income to common shareholders	(0.27)	(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	(0.26)	(1.21)	(0.99)	(1.00)	(1.00)	(1.24)		
Net asset value: End of period/year	\$ 12.25	\$11.90	\$11.89	\$10.91	\$11.10	\$12.84		
Per share market value: End of period/year	\$ 14.40	\$15.85	\$13.88	\$12.20	\$9.05	\$13.18		
Total investment return								
Net asset value (c)	5.23 %	10.56 %	18.71 %	7.60 %	(6.01 %)	9.95 %		
Market value (c)	(7.31 %)	24.16 %	22.94 %	40.86 %	(25.36 %)	(1.30 %)		
Net assets (in millions): End of period/year	\$ 124.33	\$120.32	\$119.54	\$108.93	\$110.18	\$126.63		
Ratio of operating expenses to average net assets	1.60 %(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	2.10 %(e)	2.18 %	2.53 %	2.04 %	1.91 %	2.40 %		
Ratio of net investment income to average net assets	8.67 %(e)	9.33 %	8.96 %	8.55 %	8.74 %	9.32 %		

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Portfolio turnover 13 % 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	\$9,215	\$9,021	\$10,962	\$10,077	\$10.181	\$11,552

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2012

(Unaudited)

Corporate Restricted Securities - 82.83%: (A)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Private Placement Investments - 78.41%				
A E Company, Inc. A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.				
Common Stock (B)	184,615 shs.	11/10/09	\$ 184,615	\$ 131,086
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566 253,181	65,544 196,630
A H C Holding Company, Inc. A designer and manufacturer of boilers and water heaters for the commercial sector.				
15% Senior Subordinated Note due 2015	\$ 1,415,588	11/21/07	1,400,027	1,415,588
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009 1,519,036	152,860 1,568,448
A S A P Industries LLC A designer and manufacturer of components used on oil and natural gas wells.				
Limited Liability Company Unit Class A-2 (B)	676 uts.	12/31/08	74,333	305,942
Limited Liability Company Unit Class A-3 (B)	608 uts.	12/31/08	66,899 141,232	275,350 581,292
A S C Group, Inc. A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
12.75% Senior Subordinated Note due 2016	\$ 1,227,273	10/09/09	1,098,596	1,239,546
Limited Liability Company Unit Class A (B)	2,186 uts.	*	214,793	236,663
Limited Liability Company Unit Class B (B)	1,473 uts.	10/09/09	144,716	159,471
* 10/09/09 and 10/27/10.			1,458,105	1,635,680
A W X Holdings Corporation A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.				

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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	35,654	-
			894,225	378,000
Advanced Technologies Holdings				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	546 shs.	12/27/07	270,000	629,466
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	32,060
			291,600	661,526

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
 June 30, 2012
 (Unaudited)

Corporate Restricted Securities - (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Aero Holdings, Inc.				
A provider of geospatial services to corporate and government clients.				
10.5% Senior Secured Term Note due 2014	\$ 465,000	03/09/07	\$ 462,816	\$ 465,000
14% Senior Subordinated Note due 2015	\$ 720,000	03/09/07	682,054	720,000
Common Stock (B)	150,000 shs.	03/09/07	150,000	375,081
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	37,780 shs.	03/09/07	63,730	94,470
			1,358,600	1,654,551
All Current Holding Company				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$ 603,697	09/26/08	571,312	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	83,311
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	59,241
			689,199	746,249
American Hospice Management Holding LLC				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$ 1,687,503	*	1,661,241	1,687,503
Preferred Class A Unit (B)	1,706 uts.	**	170,600	329,432
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	147,870
Common Class B Unit (B)	16,100 uts.	01/22/04	1	-
Common Class D Unit (B)	3,690 uts.	09/12/06	-	-
* 01/22/04 and 06/09/08.			1,912,631	2,164,805
** 01/22/04 and 09/12/06.				
Apex Analytix Holding Corporation				
A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe.				
12.5% Senior Subordinated Note due 2017	\$ 1,012,500	04/28/09	915,084	1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	118,575

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Common Stock (B)	723 shs.	04/28/09	723 1,078,076	52,847 1,183,922
Arch Global Precision LLC				
A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$ 760,867	12/21/11	741,930	785,963
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	23,424
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	221,582 991,930	182,627 992,014

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES)

June 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Arrow Tru-Line Holdings, Inc. A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
8% Senior Subordinated Note due 2014 (D)	\$ 1,054,025	05/18/05	\$ 964,526	\$ 895,921
Preferred Stock (B)	33 shs.	10/16/09	33,224	-
Common Stock (B)	263 shs.	05/18/05	263,298	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	69 shs.	05/18/05	59,362	-
			1,320,410	895,921
Associated Diversified Services 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)	\$ 292,000	09/30/10	286,386	294,024
13% Senior Subordinated Note due 2017	\$ 332,000	09/30/10	301,938	335,320
Limited Liability Company Unit Class B (B)	36,000 uts.	09/30/10	36,000	49,895
Limited Liability Company Unit Class B (B)	27,520 uts.	09/30/10	27,520	38,142
			651,844	717,381
Baby Jogger Holdings LLC A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019	\$ 928,220	04/20/12	910,048	931,048
Common Stock (B)	754 shs.	04/20/12	75,376	71,607
			985,424	1,002,655
Barcodes Group, Inc. 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	\$ 650,074	07/27/10	625,563	663,075
Preferred Stock (B)	13 shs.	07/27/10	131,496	131,500
Common Stock Class A (B)	44 shs.	07/27/10	437	75,205

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Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)		8 shs.	07/27/10	76 757,572	13,051 882,831
Bravo Sports Holding Corporation					
A designer and marketer of niche branded consumer products including canopies, trampolines, in-line skates, skateboards, and urethane wheels.					
12.5% Senior Subordinated					
Note due 2014	\$	1,207,902	06/30/06	1,181,815	301,976
Preferred Stock Class A (B)		465 shs.	06/30/06	141,946	-
Common Stock (B)		1 sh.	06/30/06	152	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)		164 shs.	06/30/06	48,760 1,372,673	- 301,976

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
June 30, 2012
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
C D N T, Inc.				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
10.5% Senior Secured Term Note due 2014	\$ 214,535	08/07/08	\$212,727	\$214,535
12.5% Senior Subordinated Note due 2015	\$ 429,070	08/07/08	405,599	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	37,187
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965 693,151	29,240 710,032
Capital Specialty Plastics, Inc.				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	439,571
*12/30/97 and 05/29/99.				
CHG Alternative Education Holding Company				
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	\$ 728,319	01/19/11	690,837	738,544
Common Stock (B)	375 shs.	01/19/11	37,500	32,429
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250 757,587	25,491 796,464
Church Services Holding Company				
A provider of diversified residential services to homeowners in Houston, Dallas, and Austin markets.				
14.5% Senior Subordinated Note due 2018	\$ 402,089	03/26/12	388,748	405,516
Common Stock (B)	1,327 shs.	*	132,700	106,054
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	57 shs.	03/26/12	5,740 527,188	4,554 516,124
*03/26/12, 05/25/12 and 06/19/12.				
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	146,594	234,895
Coeur, Inc.				
A producer of proprietary, disposable power injection syringes.				
12% Senior Subordinated Note due 2016	\$ 642,857	10/10/08	602,187	642,857
Common Stock (B)	321 shs.	10/10/08	32,143	44,880

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Warrant, exercisable until 2018, to purchase
common stock at \$.01 per share (B)

495 shs.	10/10/08	48,214	69,045
		682,544	756,782

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES)

June 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Connecticut Electric, Inc.				
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	11,460
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	8,290
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	93,157
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	153
			861,668	807,006
Connor Sport Court International, Inc.				
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	908,072
Preferred Stock Series C (B)	4,757 shs.	07/05/07	158,912	475,708
Common Stock (B)	380 shs.	07/05/07	4	29
Limited Partnership Interest (B)	6.88% int.	*	103,135	-
*08/12/04 and 01/14/05.			632,847	1,383,809
CorePharma LLC				
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	431,836
Crane Rental Corporation				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	\$ 1,215,000	08/21/08	1,141,243	1,182,023
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	-

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			1,379,386	1,182,023
Custom Engineered Wheels, Inc.				
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	\$ 1,155,288	10/27/09	1,042,529	1,153,381
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	48,490
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	35,427
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	-
			1,367,350	1,237,298

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
June 30, 2012
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
DPC Holdings LLC				
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 2017	\$901,292	10/21/11	\$884,934	\$909,686
Limited Liability Company Unit Class A (B)	11,111 uts.	10/21/11	111,111	89,062
			996,045	998,748
DPL Holding Corporation				
A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.				
14% Senior Subordinated Note due 2019	\$1,025,909	05/04/12	1,005,734	1,027,252
Preferred Stock (B)	20 shs.	05/04/12	204,546	194,286
Common Stock (B)	20 shs.	05/04/12	22,727	21,587
			1,233,007	1,243,125
Duncan Systems, Inc.				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2013	\$154,286	11/01/06	153,712	153,260
13% Senior Subordinated Note due 2014	\$488,572	11/01/06	465,533	482,008
	102,857			
Common Stock (B)	shs.	11/01/06	102,857	6,387
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	44,663	2,005
			766,765	643,660
E S P Holdco, Inc.				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
14% Senior Subordinated Note due 2015	\$1,285,267	01/08/08	1,271,307	1,285,267
Common Stock (B)	349 shs.	01/08/08	174,701	204,031
			1,446,008	1,489,298
E X C Acquisition Corporation				
A manufacturer of pre-filled syringes and pump systems used for intravenous drug delivery.				
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	11 shs.	06/28/04	40,875	10,432
Eatem Holding Company				
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	847,547	945,481
Common Stock (B)	50 shs.	02/01/10	50,000	37,792
Warrant, exercisable until 2018, to purchase				

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common stock at \$.01 per share (B)	119 shs.	02/01/10	107,100	90,111
			1,004,647	1,073,384

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES)

June 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
ELT Holding Company				
A provider of web-based ethics and compliance training solutions for companies in the United States.				
14% Senior Subordinated Note due 2019	\$915,202	03/01/12	\$897,548	\$916,381
Common Stock (B)	41 shs.	03/01/12	90,909	69,406
			988,457	985,787
F C X Holdings Corporation				
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	\$1,250,719	10/06/08	1,237,722	1,250,719
14% Senior Subordinated Note due 2017	\$339,734	03/02/12	333,313	339,846
Preferred Stock Series A (B)	232 shs.	*	23,200	24,405
Preferred Stock Series B (B)	2,298 shs.	10/06/08	229,804	241,740
Common Stock (B)	1,625 shs.	10/06/08	1,625	-
*12/30/10 and 07/01/11.			1,825,664	1,856,710
F F C Holding Corporation				
A leading U.S. manufacturer of private label frozen novelty and ice cream products.				
16% Senior Subordinated Note due 2017	\$881,753	09/27/10	868,454	899,388
Limited Liability Company Units Preferred (B)	171 uts.	09/27/10	153,659	173,460
Limited Liability Company Units (B)	171 uts.	09/27/10	17,073	5,459
			1,039,186	1,078,307
F G I Equity LLC				
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	\$446,231	12/15/10	436,106	455,155
14.25% Senior Subordinated Note due 2016	\$110,840	02/29/12	110,857	114,165
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	113,452
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	14,223
			621,000	696,995
F H Equity LLC				
A designer and manufacturer of a full line of automatic transmission filters and filtration systems for passenger vehicles.				
14% Senior Subordinated Note due 2017	\$515,702	12/20/10	497,962	533,378
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	13,661
			513,971	547,039
Flutes, Inc.				

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

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

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
 June 30, 2012
 (Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
G C Holdings				
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	\$944,142	\$1,020,000
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	46,958	67,188
			991,100	1,087,188
Golden County Foods Holding, Inc.				
A manufacturer of frozen appetizers and snacks.				
16% Senior Subordinated Note due 2015 (D)	\$1,012,500	11/01/07	938,215	-
14% PIK Note due 2015 (D)	\$250,259	12/31/08	217,699	-
8% Series A Convertible Preferred Stock, convertible into common shares (B)	151,643 shs.	11/01/07	77,643	-
			1,233,557	-
H M Holding Company				
A designer, manufacturer, and importer of promotional and wood furniture.				
7.5% Senior Subordinated Note due 2014 (D)	\$362,700	10/15/09	271,181	90,675
Preferred Stock (B)	21 shs.	*	21,428	-
Preferred Stock Series B (B)	1,088 shs.	10/15/09	813,544	-
Common Stock (B)	180 shs.	02/10/06	180,000	-
Common Stock Class C (B)	296 shs.	10/15/09	-	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	67 shs.	02/10/06	61,875	-
* 09/18/07 and 06/27/08.			1,348,028	90,675
Handi Quilter Holding Company				
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	429,193	473,114
Common Stock (B)	38 shs.	11/14/11	38,461	31,160
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	28 shs.	11/14/11	25,596	22,313
			493,250	526,587
Healthcare Direct Holding Company				
A direct-to-customer marketer of discount dental plans.				
14% Senior Subordinated Note due 2019	\$702,703	03/09/12	689,117	705,429
Common Stock (B)	517 shs.	03/09/12	51,724	44,099

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES)

June 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
HGGC Citadel Plastics Holdings				
A world-leading source for thermoset and thermoplastic compounds.				
14% Senior Subordinated Note due 2019	\$ 905,289	02/29/12	\$ 887,833	\$ 906,454
Common Stock (B)	101 shs.	02/29/12	100,806	79,970
			988,639	986,424
Home Décor Holding Company				
A designer, manufacturer and marketer of framed art and wall décor products.				
Common Stock (B)	33 shs.	*	33,216	73,318
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	106 shs.	*	105,618	233,110
* 06/30/04 and 08/19/04.			138,834	306,428
HOP Entertainment LLC				
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	-	-
			-	-
Hospitality Mints Holding Company				
A manufacturer of individually-wrapped imprinted promotional mints.				
14% Senior Subordinated Note due 2016	\$ 1,569,098	08/19/08	1,499,966	1,490,643
Common Stock (B)	251 shs.	08/19/08	251,163	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	60,233	-
			1,811,362	1,490,643
Ideal Tridon Holdings, Inc.				

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

13.5% Senior Subordinated Note

due 2018	\$ 916,514	10/27/11	899,526	927,402
Common Stock (B)	93 shs.	10/27/11	92,854	89,615
			992,380	1,017,017

Insurance Claims Management, Inc.

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

Common Stock (B)	47 shs.	02/27/07	1,424	243,042
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International Offshore Services LLC

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	675,000
Limited Liability Company Unit (B)	1,647 uts.	07/07/09	98,833	-
			1,335,238	675,000

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
 June 30, 2012
 (Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
J A C Holding Enterprises, Inc.				
A supplier of luggage racks and accessories to the original equipment manufacturers.				
12.5% Senior Subordinated Note due 2017	\$833,333	12/20/10	\$727,755	\$765,196
Preferred Stock A (B)	165 shs.	12/20/10	165,000	34,009
Preferred Stock B (B)	0.06 shs.	12/20/10	-	12
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	105,643	-
			1,000,065	799,217
Jason Partners Holdings LLC				
A diversified manufacturing company serving various industrial markets.				
Limited Liability Company Unit (B)	48 uts.	09/21/10	449,086	25,511
K & N Parent, Inc.				
A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.				
14% Senior Subordinated Note due 2017	\$869,565	12/23/11	852,959	881,401
Preferred Stock Series A (B)	102 shs.	12/23/11	96,578	94,860
Preferred Stock Series B (B)	29 shs.	12/23/11	27,335	26,846
Common Stock (B)	130 shs.	12/23/11	6,522	-
			983,394	1,003,107
K N B Holdings Corporation				
A designer, manufacturer and marketer of products for the custom framing market.				
15% Senior Subordinated Note due 2017	\$2,201,979	04/12/11	2,030,779	2,201,979
Common Stock (B)	71,053 shs.	05/25/06	71,053	32,254
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	37,871	19,792
			2,139,703	2,254,025
K P H I Holdings, Inc.				
A manufacturer of highly engineered plastic and metal components for a diverse range of end-markets, including medical, consumer and industrial, automotive and defense.				
15% Senior Subordinated Note due 2017	\$903,933	12/10/10	888,907	911,958
	232,826			
Common Stock (B)	shs.	12/10/10	232,826	169,844
			1,121,733	1,081,802

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES)

June 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
K P I Holdings, Inc.				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
6% Senior Subordinated Note due 2015	\$1,386,998	07/16/08	\$1,314,610	\$1,317,648
Convertible Preferred Stock Series C (B)	29 shs.	06/30/09	29,348	58,000
Convertible Preferred Stock Series D (B)	13 shs.	09/17/09	12,958	38,880
Common Stock (B)	235 shs.	07/15/08	234,783	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	-	-
			1,642,535	1,414,528
K W P I Holdings Corporation				
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	837,123
Preferred Stock PIK (B)	793 shs.	02/07/11	306,750	-
Common Stock (B)	123 shs.	03/13/07	123,000	-
Warrant, exercisable until 2019, to purchase preferred stock at \$.01 per share (B)	71 shs.	07/07/09	-	-
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)	89 shs.	03/14/07	85,890	-
			2,039,095	837,123
LPC Holding Company				
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	\$914,290	08/15/11	897,851	940,797
Common Stock (B)	94 shs.	08/15/11	94,340	74,853
			992,191	1,015,650
M V I Holding, Inc.				
A manufacturer of large precision machined metal components used in equipment which services a variety of industries, including the oil and gas, mining, and defense markets.				
Common Stock (B)	32 shs.	09/12/08	32,143	52,304
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	09/12/08	34,714	56,486
			66,857	108,790
Mail Communications Group, Inc.				

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

Limited Liability Company Unit (B)	12,764 uts.	*	166,481	213,196
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	1,787 shs.	05/04/07	22,781	29,849
* 05/04/07 and 01/02/08.			189,262	243,045

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
June 30, 2012
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Manhattan Beachwear Holding Company				
A designer and distributor of women's swimwear.				
12.5% Senior Subordinated Note due 2018	\$419,971	01/15/10	\$376,825	\$419,971
15% Senior Subordinated Note due 2018	\$106,950	10/05/10	105,157	106,040
Common Stock (B)	35 shs.	10/05/10	35,400	53,154
Common Stock Class B (B)	118 shs.	01/15/10	117,647	176,655
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	01/15/10	94,579	156,339
			729,608	912,159
Marshall Physicians Services LLC				
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	\$443,431	09/20/11	435,299	450,914
Limited Liability Company Unit Class A (B)	2,900 uts.	09/20/11	60,000	36,353
Limited Liability Company Unit Class D (B)	291 uts.	09/20/11	-	3,653
			495,299	490,920
MBWS Ultimate Holdco, Inc.				
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	*	1,031,585	1,139,845
Preferred Stock Series A (B)	1,388 shs.	09/07/10	138,797	509,069
Common Stock (B)	162 shs.	03/01/11	16,226	59,416
Common Stock (B)	153 shs.	09/07/10	15,282	56,115
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	103 shs.	03/01/11	10,325	37,777
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	386 shs.	09/07/10	38,623	141,571
* 09/07/10 and 03/01/11.			1,250,838	1,943,793
MedSystems Holdings LLC				
A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.				
13% Senior Subordinated Note due 2015	\$631,620	08/29/08	585,590	631,620
Preferred Unit (B)	66 uts.	08/29/08	66,451	86,696
Common Unit Class A (B)	671 uts.	08/29/08	671	-
Common Unit Class B (B)	250 uts.	08/29/08	63,564	-
			716,276	718,316

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES)

June 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
MEGTEC Holdings, Inc.				
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	\$ 76,493
Limited Partnership Interest (B)	0.74% int.	09/16/08	205,932	244,177
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	18 shs.	09/24/08	18,237	15,299
			278,209	335,969
Merex Holding Corporation				
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	\$ 367,924	09/22/11	361,129	374,303
Limited Liability Company Unit Series B (B)	132,076 uts.	09/22/11	132,076	81,595
			493,205	455,898
MicroGroup, Inc.				
A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.				
12% Senior Subordinated Note due 2013 (D)	\$ 1,421,795	*	1,364,411	355,449
Common Stock (B)	238 shs.	*	238,000	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	87 shs.	*	86,281	-
*08/12/05 and 09/11/06.			1,688,692	355,449
Monessen Holding Corporation				
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	-

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Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	81 shs.	03/31/06	73,125 1,902,349	- -
Motion Controls Holdings				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated				
Note due 2017	\$ 932,064	11/30/10	917,410	950,705
Limited Liability Company Unit Class B-1 (B)	93,750 uts.	11/30/10	-	92,012
Limited Liability Company Unit Class B-2 (B)	8,501 uts.	11/30/10	- 917,410	8,344 1,051,061
NABCO, Inc.				
A producer of explosive containment vessels in the United States.				
14% Senior Subordinated Note				
due 2014 (D)	\$ 330,882	02/24/06	306,091	82,720
Limited Liability Company Unit (B)	437 uts.	*	436,984	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	68 shs.	02/24/06	19,687 762,762	- 82,720
* 02/24/06 and 06/22/07.				

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUES) Babson Capital Participation Investors
 June 30, 2012
 (Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
NetShape Technologies, Inc. A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.				
14% Senior Subordinated Note due 2014	\$ 1,066,615	02/02/07	\$ 967,293	\$ 853,292
Limited Partnership Interest of Saw Mill PCG Partners LLC (B) Limited Liability Company Unit Class D of	1.38% int.	02/01/07	588,077	-
Saw Mill PCG Partners LLC (B)	9 uts.	*	8,873	