

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-Q

November 29, 2012

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

FORM N-Q

Quarterly Schedule of Portfolio Holdings of
Registered Management Investment Company

Investment Company Act file number 811-05531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

1500 Main Street, Springfield, MA 01115

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis, Vice President and Secretary
1500 Main Street, Suite 2800, Springfield, MA 01115

(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: 09/30/12

ITEM 1. SCHEDULE OF INVESTMENTS

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

997,852

1,128,706

9

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 |
|--|---|------------------|------------|------------|
| 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) | | | | |
| | \$ 252,000 | 09/30/10 | 247,385 | 255,860 |
| 13% Senior Subordinated Note due 2017 | | | | |
| | \$ 332,000 | 09/30/10 | 302,891 | 332,000 |
| Limited Liability Company Unit Class B (B) | | | | |
| | 36,000 uts. | 09/30/10 | 36,000 | 44,215 |
| Limited Liability Company Unit Class B (B) | | | | |
| | 27,520 uts. | 09/30/10 | 27,520 | 33,800 |
| | | | 613,796 | 665,875 |
| Baby Jogger Holdings LLC | | | | |
| A designer and marketer of premium baby strollers and stroller accessories. | | | | |
| 14% Senior Subordinated Note due 2019 | | | | |
| | \$ 932,861 | 04/20/12 | 915,181 | 950,511 |
| Common Stock (B) | | | | |
| | 754 shs. | 04/20/12 | 75,376 | 88,336 |
| | | | 990,557 | 1,038,847 |
| 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 | | | | |
| | \$ 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 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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 |
|---|---|------------------|-------------------|-------------------|
| 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 | \$ 187,718 | 08/07/08 | \$ 186,309 | \$ 187,718 |
| 12.5% Senior Subordinated Note due 2015 | \$ 429,070 | 08/07/08 | 407,142 | 429,070 |
| Common Stock (B) | 41,860 shs. | 08/07/08 | 41,860 | 48,060 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 32,914 shs. | 08/07/08 | 32,965 668,276 | 37,789 702,637 |
| Capital Specialty Plastics, Inc. | | | | |
| A producer of desiccant strips used for packaging pharmaceutical products. | | | | |
| Common Stock (B) | 55 shs. | * | 252 | 567,149 |
| * 12/30/97 and 05/29/99. | | | | |
| 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 | | \$731,111 | 01/19/11 | 694,916 |
| 14% Senior Subordinated Note due 2019 | | \$188,104 | 08/03/12 | 184,409 |
| Common Stock (B) | | 375 shs. | 01/19/11 | 37,500 |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) | | 295 shs. | 01/19/11 | 29,250 946,075 |
| | | | | 25,128 997,564 |
| 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 | | \$404,099 | 03/26/12 | 391,192 |
| Common Stock (B) | | 1,327 shs. | * | 132,700 |
| Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B) | | 57 shs. | 03/26/12 | 5,740 |
| * 03/26/12, 05/25/12 and 06/19/12. | | | | |
| | | | | 529,632 |
| | | | | 614,326 |
| Clough, Harbour and Associates | | | | |
| An engineering service firm that is located in Albany, NY. | | | | |
| Preferred Stock (B) | | 147 shs. | 12/02/08 | 146,594 |
| | | | | 90,972 |

Coeur, Inc.

A producer of proprietary, disposable power injection syringes.

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

11

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 |
|--|--|---------------------|-----------|------------|
| 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 | 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 |
| 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 | 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 |
| 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 | 575,888 |
| Crane Rental Corporation | | | | |
| A crane rental company since 1960, headquartered in Florida. | | | | |
| 13% Senior Subordinated Note due 2015 | \$1,215,000 | 08/21/08 | 1,145,923 | 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 |
| 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 | \$ 1,025,480 | 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 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

| | | | | |
|---|---------|----------|-----------|-----------|
| 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 |

12

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

| | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|--|---------------------|-------------|-------------|
| Corporate Restricted Securities: (A) (Continued) | | | | |
| 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 2018 | \$1,132,147 | * | \$1,112,017 | \$1,157,662 |
| Limited Liability Company Unit Class A (B) | 13,548 uts. | * | 135,477 | 86,345 |
| * 10/21/11 and 08/03/12. | | | 1,247,494 | 1,244,007 |
| 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 | \$1,031,038 | 05/04/12 | 1,011,511 | 1,071,620 |
| Preferred Stock (B) | 20 shs. | 05/04/12 | 204,546 | 207,090 |
| Common Stock (B) | 20 shs. | 05/04/12 | 22,727 | 11,416 |
| | | | 1,238,784 | 1,290,126 |
| 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 | 153,814 | 153,439 |
| 13% Senior Subordinated Note due 2014 | \$488,572 | 11/01/06 | 467,636 | 481,911 |
| Common Stock (B) | 102,857 shs. | 11/01/06 | 102,857 | 7,934 |
| Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B) | 32,294 shs. | 11/01/06 | 44,663 | 2,491 |
| | | | 768,970 | 645,775 |
| 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 | \$ 1,291,694 | 01/08/08 | 1,278,527 | 1,291,694 |
| Common Stock (B) | 349 shs. | 01/08/08 | 174,701 | 183,720 |
| | | | 1,453,228 | 1,475,414 |
| 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 | 14,003 |
| Eatam Holding Company | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

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

13

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 |
|---|---|---------------------|------------|------------|
| 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 | \$ 919,880 | 03/01/12 | \$ 902,711 | \$ 935,478 |
| Common Stock (B) | 41 shs. | 03/01/12 | 90,909 | 67,611 |
| | | | 993,620 | 1,003,089 |
| 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 | \$ 1,260,099 | 10/06/08 | 1,247,896 | 1,260,099 |
| 14% Senior Subordinated Note due 2017 | \$ 341,433 | 03/02/12 | 335,359 | 358,504 |
| Preferred Stock Series A (B) | 232 shs. | * | 23,200 | 33,367 |
| Preferred Stock Series B (B) | 2,298 shs. | 10/06/08 | 229,804 | 330,504 |
| Common Stock (B) | 1,625 shs. | 10/06/08 | 1,625 | 172,866 |
| * 12/30/10 and 07/01/11. | | | 1,837,884 | 2,155,340 |
| 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 | \$ 889,469 | 09/27/10 | 876,804 | 898,363 |
| Limited Liability Company Units Preferred (B) | 171 uts. | 09/27/10 | 153,659 | 176,968 |
| Limited Liability Company Units (B) | 171 uts. | 09/27/10 | 17,073 | 125,154 |
| | | | 1,047,536 | 1,200,485 |
| 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 | \$ 448,226 | 12/15/10 | 438,550 | 457,191 |
| 14.25% Senior Subordinated Note due 2016 | \$ 111,477 | 02/29/12 | 111,513 | 114,822 |
| Limited Liability Company Unit Class B-1 (B) | 65,789 uts. | 12/15/10 | 65,789 | 122,933 |
| Limited Liability Company Unit Class B-2 (B) | 8,248 uts. | 12/15/10 | 8,248 | 15,412 |
| Limited Liability Company Unit Class B-3 (B) | 6,522 uts. | 08/30/12 | 15,000 | 12,187 |
| | | | 639,100 | 722,545 |
| F H Equity LLC | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

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

Flutes, Inc.

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

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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 |
|--|---|------------------|-----------|-------------|
| 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 | \$946,077 | \$1,020,000 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 198 shs. | 10/19/10 | 46,958 | 266,803 |
| | | | 993,035 | 1,286,803 |
| 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 | 430,233 | 479,445 |
| Common Stock (B) | 38 shs. | 11/14/11 | 38,461 | 42,021 |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) | 28 shs. | 11/14/11 | 25,596 | 30,090 |
| | | | 494,290 | 551,556 |
| Healthcare Direct Holding Company | | | | |
| A direct-to-customer marketer of discount dental plans. | | | | |
| 14% Senior Subordinated Note due 2019 | \$706,295 | 03/09/12 | 693,089 | 720,120 |
| Common Stock (B) | 517 shs. | 03/09/12 | 51,724 | 44,129 |
| | | | 744,813 | 764,249 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|--|---------------------|------------|------------|
| HGGC Citadel Plastics Holdings | | | | |
| A world-leading source for thermoset and thermoplastic compounds. | | | | |
| 14% Senior Subordinated Note due 2019 | \$ 909,916 | 02/29/12 | \$ 892,939 | \$ 925,333 |
| Common Stock (B) | 101 shs. | 02/29/12 | 100,806 | 95,397 |
| | | | 993,745 | 1,020,730 |
| Home Décor Holding Company | | | | |
| A designer, manufacturer and marketer of framed art and wall décor products. | | | | |
| Common Stock (B) | 33 shs. | * | 33,216 | 79,516 |
| Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B) | 106 shs. | * | 105,618 | 252,815 |
| * 06/30/04 and 08/19/04. | | | 138,834 | 332,331 |
| 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 | 1,502,893 | 1,490,643 |
| Common Stock (B) | 251 shs. | 08/19/08 | 251,163 | 6,029 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 65 shs. | 08/19/08 | 60,233 | 1,558 |
| | | | 1,814,289 | 1,498,230 |
| HVAC Holdings, Inc. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

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

Ideal Tridon Holdings, Inc.

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

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

Insurance Claims Management, Inc.

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

| | | | | |
|------------------|---------|----------|-------|---------|
| Common Stock (B) | 47 shs. | 02/27/07 | 1,424 | 287,519 |
|------------------|---------|----------|-------|---------|

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 |
|---|---|------------------|--------------|------------|
| 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) Limited Liability Company Unit (B) | | | | |
| | \$ 1,350,000 | 07/07/09 | \$ 1,236,405 | \$ 337,500 |
| | 1,647 uts. | 07/07/09 | 98,833 | - |
| | | | 1,335,238 | 337,500 |
| 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 Preferred Stock A (B) Preferred Stock B (B) Common Stock (B) Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | | | | |
| | \$ 833,333 | 12/20/10 | 730,969 | 777,888 |
| | 165 shs. | 12/20/10 | 165,000 | 67,601 |
| | 0.06 shs. | 12/20/10 | - | 25 |
| | 33 shs. | 12/20/10 | 1,667 | - |
| | 12 shs. | 12/20/10 | 105,643 | - |
| | | | 1,003,279 | 845,514 |
| 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 Preferred Stock Series A (B) Preferred Stock Series B (B) Common Stock (B) | | | | |
| | \$ 873,913 | 12/23/11 | 857,762 | 908,590 |
| | 102 shs. | 12/23/11 | 96,578 | 96,577 |
| | 29 shs. | 12/23/11 | 27,335 | 27,332 |
| | 130 shs. | 12/23/11 | 6,522 | 17,362 |
| | | | 988,197 | 1,049,861 |
| K N B Holdings Corporation | | | | |
| A designer, manufacturer and marketer of products for the custom framing market. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

K P H I Holdings, Inc.

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

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Value | |
|---|---|------------------|--------------|--------------|-----------|
| K P I Holdings, Inc. | | | | | |
| The largest player in the U.S. non-automotive, non-ferrous die casting segment. | | | | | |
| 12.75% Senior Subordinated Note due 2015 | \$ 1,425,140 | 07/16/08 | \$ 1,355,451 | \$ 1,353,883 | |
| Convertible Preferred Stock Series C (B) | 29 shs. | 06/30/09 | 29,348 | 58,000 | |
| Convertible Preferred Stock Series D (B) | 13 shs. | 09/17/09 | 12,958 | 38,880 | |
| Common Stock (B) | 235 shs. | 07/15/08 | 234,783 | - | |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 51 shs. | 07/16/08 | 50,836 | - | |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 67 shs. | 09/17/09 | - | - | |
| | | | 1,683,376 | 1,450,763 | |
| 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 | - | |
| 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 | - | |
| 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 | \$ | 1,157,755 | 08/15/11 | 1,137,155 | 1,180,911 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

M V I Holding, Inc.

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

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

Mail Communications Group, Inc.

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

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

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

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|------------|------------|
| Manhattan Beachwear Holding Company | | | | |
| A designer and distributor of women's swimwear. | | | | |
| 12.5% Senior Subordinated Note due 2018 | \$ 419,971 | 01/15/10 | \$ 378,099 | \$ 419,971 |
| 15% Senior Subordinated Note due 2018 | \$ 107,618 | 10/05/10 | 105,882 | 106,231 |
| Common Stock (B) | 35 shs. | 10/05/10 | 35,400 | 56,491 |
| Common Stock Class B (B) | 118 shs. | 01/15/10 | 117,647 | 187,744 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | 104 shs. | 01/15/10 | 94,579 | 166,153 |
| | | | 731,607 | 936,590 |
| 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 | \$444,540 | 09/20/11 | 436,651 | 456,885 |
| Limited Liability Company Unit Class A (B) | 2,900 uts. | 09/20/11 | 60,000 | 35,460 |
| Limited Liability Company Unit Class D (B) | 291 uts. | 09/20/11 | - | 3,564 |
| | | | 496,651 | 495,909 |
| 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 | * | 1,035,440 | 1,128,670 |
| Preferred Stock Series A (B) | 1,388 shs. | 09/07/10 | 138,797 | 522,640 |
| Common Stock (B) | 162 shs. | 03/01/11 | 16,226 | 61,000 |
| Common Stock (B) | 153 shs. | 09/07/10 | 15,282 | 57,611 |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 103 shs. | 03/01/11 | 10,325 | 38,784 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 386 shs. | 09/07/10 | 38,623 | 145,345 |
| * 09/07/10 and 03/01/11. | | | 1,254,693 | 1,954,050 |
| 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 | \$633,199 | 08/29/08 | 589,932 | 633,199 |
| Preferred Unit (B) | 66 uts. | 08/29/08 | 66,451 | 90,065 |
| Common Unit Class A (B) | 671 uts. | 08/29/08 | 671 | 8,998 |
| Common Unit Class B (B) | 250 uts. | 08/29/08 | 63,564 | 3,348 |
| | | | 720,618 | 735,610 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|--|---------------------|-----------|------------|
| 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 | \$ 78,400 |
| Limited Partnership Interest (B) | 0.74% int. | 09/16/08 | 205,932 | 244,416 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 18 shs. | 09/24/08 | 18,237 | 13,635 |
| | | | 278,209 | 336,451 |
| 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 | \$ 424,528 | 09/22/11 | 416,821 | 437,264 |
| Limited Liability Company Unit Series B (B) | 155,945 uts. | 09/22/11 | 155,945 | - |
| | | | 572,766 | 437,264 |
| 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 | - |
| Warrant, exercisable until 2014, to purchase | 81 shs. | 03/31/06 | 73,125 | - |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

1,902,349 -

Motion Controls Holdings

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

14.25% Senior Subordinated Note
due 2017

\$ 936,232

11/30/10

922,116

954,957

Limited Liability Company Unit
Class B-1 (B)

93,750 uts.

11/30/10

-

83,385

Limited Liability Company Unit
Class B-2 (B)

8,501 uts.

11/30/10

-

7,561

922,116

1,045,903

NABCO, Inc.

A producer of explosive
containment vessels in the United
States.

14% Senior Subordinated Note
due 2014 (D)

\$ 330,882

02/24/06

306,091

82,720

Limited Liability Company Unit
(B)

437 uts.

*

436,984

-

Warrant, exercisable until 2016, to
purchase

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

68 shs.

02/24/06

19,687

-

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

762,762

82,720

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

| | | | | |
|--|---------|----------|---------------------|---------------------|
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) * 02/02/11 and 06/30/11. | 59 shs. | 02/02/11 | 52,987 1,000,731 | 50,954 1,060,909 |
|--|---------|----------|---------------------|---------------------|

21

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

22

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

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

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

27

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

Babson Capital Participation Investors

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

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

Total Private Placement
Investments (E)

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

29

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

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

30

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

| Corporate Public Securities - 21.00%: (A) | Interest Rate | Due Date | Principal Amount | Cost | Market Value |
|---|---------------|------------|------------------|-----------|--------------|
| Bonds -20.98% | | | | | |
| 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 |
| Enscoc PLC | 3.250 | 03/15/16 | 600,000 | 598,384 | 640,142 |
| Equifax, Inc. | 4.450 | 12/01/14 | 500,000 | 508,835 | 529,154 |
| GATX Corporation | 4.750 | 05/15/15 | 500,000 | 504,417 | 535,430 |
| General Electric Capital Corporation | 5.500 | 01/08/20 | 500,000 | 498,464 | 591,508 |
| Goldman Sachs Group, Inc. | 4.750 | 07/15/13 | 500,000 | 484,176 | 515,908 |
| Headwaters, Inc. | 7.625 | 04/01/19 | 305,000 | 305,142 | 309,575 |
| Health Management Association | 6.125 | 04/15/16 | 250,000 | 256,821 | 272,500 |
| HealthSouth Corporation | 7.750 | 09/15/22 | 500,000 | 501,184 | 546,250 |
| Hertz Corporation | 6.750 | 04/15/19 | 220,000 | 216,858 | 232,100 |
| International Game Technology | 7.500 | 06/15/19 | 500,000 | 499,790 | 599,743 |
| Jabil Circuit, Inc. | 4.700 | 09/15/22 | 500,000 | 499,959 | 497,500 |
| Johnson Controls, Inc. | 5.500 | 01/15/16 | 500,000 | 444,090 | 573,049 |
| Kraft Foods, Inc. | 5.375 | 02/10/20 | 500,000 | 513,695 | 603,183 |
| Masco Corporation | 7.125 | 03/15/20 | 350,000 | 349,995 | 398,411 |
| Morgan Stanley | 5.500 | 01/26/20 | 500,000 | 497,882 | 544,245 |
| NBC Universal Media LLC | 5.150 | 04/30/20 | 500,000 | 499,425 | 592,541 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

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

(B) Non-income producing security.

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

(D) Defaulted security; interest not accrued.

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

^ Effective yield at purchase

PIK-Payment-in-kind

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

Babson Capital Participation Investors

September 30, 2012

(Unaudited)

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

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

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-Q

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

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

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:

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

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

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

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

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

ITEM 2. CONTROLS AND PROCEDURES.

(a) The principal executive officer and principal financial officer of the Registrant evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as of a date within 90 days of the filing date of this report and based on that evaluation have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by the Registrant on Form N-Q is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) There have been changes in the Registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act)("internal controls") that occurred during the Registrant's last fiscal quarter. The Registrant's investment adviser, Babson Capital Management LLC, who maintains the Registrant's internal controls, revised its internal controls to oversee State Street Bank & Trust who now provides certain administrative and accounting services to the Registrant.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) are attached hereto as an exhibit.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Babson Capital Participation Investors

By (Signature and Title)*

/s/ Michael L. Klofas

Michael L. Klofas, President

Date November 29, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By (Signature and Title)*

/s/ Michael L. Klofas

Michael L. Klofas, President

Date November 29, 2012

By (Signature and Title)*

/s/ James M. Roy

James M. Roy, Vice President and
Chief Financial Officer

Date November 29, 2012

* PRINT THE NAME AND TITLE OF EACH SIGNING OFFICER UNDER HIS OR HER SIGNATURE.
