

BABSON CAPITAL PARTICIPATION INVESTORS  
Form N-CSR  
March 11, 2013

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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

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(Exact name of registrant as specified in charter)

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

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(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

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(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: 12/31/12

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.

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

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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.

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ITEM 1. REPORT TO STOCKHOLDERS.

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





## BABSON CAPITAL PARTICIPATION INVESTORS

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

### INVESTMENT OBJECTIVE & POLICY

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

The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade (as defined below), long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. The Trust is prohibited from purchasing below-investment grade securities if, after giving effect to the purchase, more than 75% of the Trusts’ total assets would be invested in below-investment grade securities, which are securities that are rated, at the time of purchase, BB or B by S&P or Ba or B by Moody’s, or, if unrated, are believed by Babson Capital Management LLC (“Babson Capital”) to be of an equivalent quality. In addition, the Trust will not invest in any debt security that is rated, at the time of acquisition, below B by S&P or Moody’s, or if unrated, is believed by Babson Capital to be of an equivalent quality. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

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

In this report you will find a complete listing of the Trust’s holdings. We encourage you to read this section carefully for a better understanding of the Trust. We cordially invite all shareholders to attend the Trust’s Annual Meeting of Shareholders, which will be held on April 19, 2013 at 1:00 P.M. in Springfield, Massachusetts.

Babson Capital Participation Investors

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\*Data for Babson Capital Participation Investors (the “Trust”) represents portfolio returns based on change in the Trust’s net asset value assuming the reinvestment of all dividends and distributions. These returns differ from the total investment return based on market value of the Trust’s shares due to the difference between the Trust’s net asset value and the market value of its shares outstanding (see page 12 for total investment return based on market value). Past performance is no guarantee of future results.

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## 2012 Annual Report

## TO OUR SHAREHOLDERS

I am pleased to share with you the Trust's Annual Report for the year ended December 31, 2012.

## PORTFOLIO PERFORMANCE

The Trust's net total portfolio rate of return for 2012 was 15.9%, as measured by the change in net asset value and assuming the reinvestment of all dividends and distributions. The Trust's total net assets were \$127,874,125, or \$12.56 per share, as of December 31, 2012. This compares to \$120,319,666 or \$11.90 per share, as of December 31, 2011. The Trust paid a quarterly dividend of \$0.27 per share for each of the four quarters of 2012, for a total annual dividend of \$1.08 per share. In 2011, the Trust also paid four quarterly dividends of \$0.27 per share, and declared a special year-end dividend of \$0.15 per share, for a total annual dividend of \$1.23 per share. Net investment income for the year was \$1.08 per share, including approximately \$0.06 per share of non-recurring income. Net investment income for 2011 was \$1.14 per share, which included approximately \$0.12 per share of non-recurring income.

After increasing 14.2% in 2011 and 13.8% in 2010, the Trust's stock price declined from \$15.85 as of December 31, 2011 to \$13.91 as of December 31, 2012, or 12.2%. Since year-end, the stock price has rebounded nicely. The Trust's stock price of \$13.91 as of December 31, 2012 equates to a 10.7% premium over the December 31, 2012 net asset value per share of \$12.56. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 18.3%, 9.7% and 10.5%, respectively.

The table below lists the average annual net returns of the Trust's portfolio, based on the change in net assets and assuming the reinvestment of all dividends and distributions. Average annual returns of the Barclays Capital U.S. Corporate High Yield Index and the Russell 2000 Index for the 1, 3, 5 and 10 years ended December 31, 2012 are provided for comparison purposes only.

## PORTFOLIO ACTIVITY

	The Trust	Barclays Capital U.S. Corporate High Yield Index	Russell 2000 Index
1 Year	15.89%	15.81%	16.35%
3 Years	15.01%	11.86%	12.25%
5 Years	9.00%	10.34%	3.56%
10 Years	14.30%	10.62%	9.72%

Past performance is no guarantee of future results.



Babson Capital Participation Investors

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New investment activity for the Trust was strong in 2012, particularly in the fourth quarter when the Trust completed 11 new private placement investments and one add-on investment. For the full year 2012, the Trust closed 21 new private placement investments and 11 add-on investments in nine existing portfolio companies. Total private placement investments purchased in 2012 were \$23,001,545. This amount represents an 85.6% increase from the \$12,396,081 of new private placement investments completed by the Trust in 2011. We were certainly pleased with the quantity of new investment activity in 2012, but, more importantly, we were very pleased by the overall quality of these new investments. Leverage multiples were reasonable during the year and pricing and return expectations on new investments were at an acceptable level in 2012. All in all, market conditions in the private mezzanine investment arena in 2012 were favorable for new investment activity.

New private placement investments completed during 2012 were 1492 Acquisition LLC; ABC Industries, Inc.; Advanced Manufacturing Enterprises; AMS Holding LLC; Baby Jogger Holdings LLC; BP SCI LLC; Blue Wave Products, Inc.; Church Services Holding Company; DPL Holding Corporation; ELT Holding Company; GD Dental Services LLC; Healthcare Direct Holding Company; HGGC Citadel Plastics Holdings; HVAC Holdings, Inc.; JMH Investors LLC; MNX Holding Company; Petroplex Inv Holdings LLC; RM Holding Company; Rose City Holding Co.; Safety Infrastructure Solutions and Stag Parkway Holding Co. In addition, the Trust added to existing private placement investments in CHG Alternative Education Holding Company; Church Services Holding Company; DPC Holdings LLC; DPL Holding Corporation; FCX Holding Corporation; FGI Equity LLC; LPC Holding Company; LTS Scale and Merex Holding Corporation. A brief description of these investments can be found in the Consolidated Schedule of Investments.

The condition of the Trust's existing portfolio continued to strengthen in 2012. Sales and earnings for the Trust's portfolio as a whole continued their upward momentum – we now have seen 34 consecutive months of increases in the average sales and EBITDA of our portfolio companies since hitting trough levels in late 2009. Credit upgrades in the portfolio this year once again far outnumbered credit downgrades, while the number of companies on our watch list and in default is at the lowest level we have seen over the last five years.

We had 19 companies exit from the Trust's portfolio during 2012. In 17 of these exits, the Trust realized a significant positive return on its investment. These investments were ASAP Industries LLC; Aero Holdings, Inc.; Associated Diversified Services; Barcodes Group, Inc.; Coeur, Inc.; FCX Holding Corporation; FH Equity LLC, Milwaukee Gear Company; Nyloncraft, Inc.; Oak River Technology, Inc.; Power Services Holding Company; REI Delaware Holdings, Inc.; Royal Baths Manufacturing Company; Savage Sports Holding, Inc.; Stanton Carpet Holding Company; THI Acquisition, Inc. and Xaloy Superior Holdings, Inc. Two long-standing troubled investments, KWPI Holdings Corporation and Pacific Consolidated Holdings LLC, were also realized in 2012 at recovery levels consistent with their carrying values. In addition, we had a number of companies who took advantage of lower interest rate and improved operating performance to refinance and prepay their debt obligations to the Trust.

## OUTLOOK FOR 2013

Though the mergers and acquisitions market has taken a bit of a breather in early 2013, we expect that deal flow will pick up and be at robust levels during the rest of 2013. This should lead to a healthy level of investment opportunities for the Trust. We also have a significant number of portfolio companies that are in various stages of a sale process, and we expect that realization activity will remain strong in 2013. Strong realization and refinancing activity is a double-edged sword, however, 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 years 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.



## 2012 Annual Report

The Trust performed well in 2012. Despite the unsettled global economic conditions and other challenges, we are optimistic about the Trust's performance as we proceed through 2013. Rest assured that regardless of the economic and market environment, the Trust will continue to employ the investment philosophy that has served it well since its inception: investing in companies which we believe have a strong business proposition, solid cash flow and experienced, ethical management. This philosophy, along with Babson Capital's seasoned investment-management team, positions the Trust well to meet its investment objectives and policies. As always, I would like to thank you for your continued interest in and support of Babson Capital Participation Investors. I look forward to seeing you at the Trust's annual shareholder meeting in Springfield on April 19, 2013.

Lastly, on behalf of the Trust's shareholders, the members of the Board of Trustees, and the officers of the Trust, I would like to thank Martin T. Hart for his over 21 years of dedicated service to the Trust as a Trustee. Martin was elected as a Trustee in April 1991 and the December 2012 meeting of the Trustees was his last meeting as a Trustee. He has provided the Trust with unique and invaluable insight and guidance throughout his tenure as a Trustee. We will miss him and his contributions to the Trust.

Sincerely,  
Michael L. Klofas  
President

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

	Record	Net	Short-Term	Tax	Long-Term
2012	Date	Investment	Gains	Effect	Gains
Dividends		Income			
Regular	5/7/2012	0.2700	-		-
	7/30/2012	0.2700	-		-
	10/29/2012	0.2700	-		-
	12/31/2012	0.2319	0.0381	-	-
		\$ 1.0419	\$ 0.0381	\$ 1.0800	0.0000

The following table summarizes the tax effects of the relation of capital gains for 2012:

	Amount	Form 2439
	Per Share	Line 1a
2012 Gains Retained	0.2571	Line 1a
Long-Term Gains Retained	0.2571	
Taxes Paid	0.0900	Line 2 *
Basis Adjustment	0.1671	**

\*

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If you are not subject to federal capital gains tax (e.g. charitable organizations, IRAs and Keogh Plans) you may be able to claim a refund by filing Form 990-T.

\*\* For federal income tax purposes, you may increase the adjusted cost basis of your shares by this amount (the excess of Line 1a over Line 2).

Annual Dividend Amount Per Share	Qualified For Dividend Received Deduction*** Percent	Amount Per Share	Qualified Dividends**** Percent	Amount Per Share	Interest Earned On U.S. Gov't. Obligations Percent	Amount Per Share
\$1.08	6.5233 %	0.0703	6.2241 %	0.0671	0 %	0.0000

\*\*\*Not available to individual shareholders

\*\*\*\*Qualified dividends are reported in Box 1b on IRS Form 1099-Div for 2012



## 2012 Annual Report

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**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**  
 December 31, 2012

## Assets:

## Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$109,376,327)	\$ 101,530,328
Corporate restricted securities at market value (Cost - \$5,279,368)	5,534,500
Corporate public securities at market value (Cost - \$26,343,135)	28,306,680
Short-term securities at amortized cost	7,499,326
Total investments (Cost - \$148,498,156)	142,870,834
Cash	3,551,088
Interest receivable	1,131,874
Other assets	66,814

Total assets	147,620,610
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## Liabilities:

Note payable	15,000,000
Dividend payable	2,749,477
Tax Payable	1,065,595
Deferred tax liability	467,634
Investment advisory fee payable	287,717
Interest payable	27,267
Accrued expenses	148,795

Total liabilities	19,746,485
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Total net assets	\$ 127,874,125
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## Net Assets:

Common shares, par value \$.01 per share	\$ 101,832
Additional paid-in capital	94,962,681
Retained net realized gain on investments, prior years	33,733,164
Undistributed net investment income	1,493,124
Accumulated net realized gain on investments	3,678,280
Net unrealized depreciation of investments	(6,094,956)

Total net assets	\$ 127,874,125
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Common shares issued and outstanding (14,785,750 authorized)	10,183,249
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Net asset value per share	\$ 12.56
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See Notes to Consolidated Financial Statements

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## Babson Capital Participation Investors

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**CONSOLIDATED STATEMENT OF OPERATIONS**

For the year ended December 31, 2012

Investment Income:	
Interest	\$12,616,327
Dividends	704,628
Other	131,954
 Total investment income	 13,452,909
Expenses:	
Investment advisory fees	1,132,533
Interest	613,500
Trustees' fees and expenses	322,000
Professional fees	231,700
Reports to shareholders	54,000
Custodian fees	28,000
Other	106,053
 Total expenses	 2,487,786
 Investment income - net	 10,965,123
Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	3,515,717
Income tax expense	(1,026,921 )
Net realized gain on investments after taxes	2,488,796
Net change in unrealized depreciation of investments before taxes	4,024,607
Net change in deferred income tax expense	34,494
Net change in unrealized depreciation of investments after taxes	4,059,101
 Net gain on investments	 6,547,897
 Net increase in net assets resulting from operations	 \$17,513,020

See Notes to Consolidated Financial Statements



## 2012 Annual Report

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**CONSOLIDATED STATEMENT OF CASH FLOWS**  
 For the year ended December 31, 2012

Net decrease in cash:	
Cash flows from operating activities:	
Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$543,397
Purchases of portfolio securities	(44,067,920)
Proceeds from disposition of portfolio securities	44,374,220
Interest, dividends and other income received	11,514,383
Interest expense paid	(616,908 )
Operating expenses paid	(1,911,382 )
Income taxes paid	38,674
Net cash provided by operating activities	9,874,464
Cash flows from financing activities:	
Cash dividends paid from net investment income and realized short-term gains	(12,469,848)
Receipts for shares issued on reinvestment of dividends	1,013,772
Net cash used for financing activities	(11,456,076)
Net decrease in cash	(1,581,612 )
Cash - beginning of year	5,132,700
Cash - end of year	\$3,551,088
Reconciliation of net increase in net assets to net cash provided by operating activities:	
Net increase in net assets resulting from operations	\$17,513,020
Increase in investments	(8,827,872 )
Decrease in interest receivable	146,273
Increase in receivable for investments sold	(66,814 )
Decrease in other assets	119,260
Increase in tax payable	1,065,595
Decrease in deferred tax liability	(34,494 )
Increase in investment advisory fee payable	16,998
Decrease in interest payable	(3,408 )
Decrease in accrued expenses	(54,094 )
Total adjustments to net assets from operations	(7,638,556 )
Net cash provided by operating activities	\$9,874,464

See Notes to Consolidated Financial Statements

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## Babson Capital Participation Investors

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**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
 For the year ended December 31, 2012 and 2011

	2012	2011
Increase in net assets:		
Operations:		
Investment income - net	\$10,965,123	\$11,526,972
Net realized gain on investments after taxes	2,488,796	627,341
Net change in unrealized depreciation of investments after taxes	4,059,101	166,242
Net increase in net assets resulting from operations	17,513,020	12,320,555
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2012 - 71,363; 2011 - 61,615)	1,013,772	871,579
Dividends to shareholders from:		
Net investment income (2012 - \$1.04 per share; 2011 - \$1.23 per share)	(10,584,312 )	(12,387,295 )
Net realized gains (2012 - \$0.04 per share; 2011 - \$0.00 per share)	(388,021 )	(25,408 )
Total increase in net assets	7,544,459	779,431
Net assets, beginning of year	120,319,666	119,540,235
Net assets, end of year (including undistributed net investment income of \$1,493,124 and \$1,259,710 respectively)	\$127,874,125	\$120,319,666

See Notes to Consolidated Financial Statements

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## 2012 Annual Report

**CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS**

Selected Data for each share of beneficial interest outstanding:

	For the years ended December 31,				
	2012	2011	2010	2009	2008
Net asset value:					
Beginning of year	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84
Net investment income (a)	1.08	1.14	1.02	0.94	1.08
Net realized and unrealized gain (loss) on investments	0.64	0.08	0.95	(0.13 )	(1.82 )
Total from investment operations	1.72	1.22	1.97	0.81	(0.74 )
Dividends from net investment income to common shareholders	(1.04 )	(1.23 )	(1.00 )	(1.00 )	(1.00 )
Dividends from net realized gain on investments to common shareholders	(0.04 )	(0.00) (b )	-	-	-
Increase from dividends reinvested	0.02	0.02	0.01	0.00 (b )	0.00(b )
Total dividends	(1.06 )	(1.21 )	(0.99 )	(1.00 )	(1.00 )
Net asset value: End of year	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10
Per share market value:					
End of year	\$ 13.91	\$ 15.85	\$ 13.88	\$ 12.20	\$ 9.05
Total investment return					
Net asset value (c)	15.89 %	10.56 %	18.71 %	7.60 %	(6.01 %)
Market value (c)	(4.54 %)	24.16 %	22.94 %	40.86 %	(25.36 %)
Net assets (in millions):					
End of year	\$ 127.87	\$ 120.32	\$ 119.54	\$ 108.93	\$ 110.18
Ratio of operating expenses to average net assets	1.51 %	1.42 %	1.46 %	1.41 %	1.33 %
Ratio of interest expense to average net assets	0.49 %	0.56 %	0.61 %	0.63 %	0.58 %
Ratio of income tax expense to average net assets (d)	0.83 %	0.20 %	0.46 %	0.00 %	0.00 %
Ratio of total expenses to average net assets	2.83 %	2.18 %	2.53 %	2.04 %	1.91 %
Ratio of net investment income to average net assets	8.82 %	9.33 %	8.96 %	8.55 %	8.74 %
Portfolio turnover	34 %	21 %	27 %	23 %	32 %

(a) Calculated using average shares.

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

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

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

Senior borrowings:

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Total principal amount (in millions)	\$15	\$15	\$12	\$12	\$12
Asset coverage per \$1,000 of indebtedness	\$9,525	\$9,021	\$10,962	\$10,077	\$10,181

See Notes to Consolidated Financial Statements

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## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 83.73%: (A)				
Private Placement Investments - 79.40%				
1492 Acquisition LLC				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated Note due 2019 Limited Liability Company Unit Class A Common (B)	\$ 1,140,973	10/17/12	\$ 1,118,647	\$ 1,135,544
Limited Liability Company Unit Class A Preferred (B)	11,364 uts.	10/17/12	11,364	10,795
	102 uts.	10/17/12	102,270	97,157
			1,232,281	1,243,496
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	183,895
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566	91,948
			253,181	275,843
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	\$ 1,437,377	11/21/07	1,423,632	1,437,377
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009	145,595
			1,542,641	1,582,972
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.				
Limited Liability Company Unit Class A (B)	2,186 uts.	*	78,340	244,764
Limited Liability Company Unit Class B (B)	1,479 uts.	10/09/09	52,999	165,602
* 10/09/09 and 10/27/10.			131,339	410,366
A W X Holdings Corporation				
A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.				
10.5% Senior Secured Term Note due 2014 (D)	\$ 420,000	05/15/08	413,944	378,000
13% Senior Subordinated Note due 2015 (D)	\$ 420,000	05/15/08	384,627	-
Common Stock (B)	60,000 shs.	05/15/08	60,000	-
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	-
			894,225	378,000

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ABC Industries, Inc.

A manufacturer of mine and tunneling ventilation products in the U.S.

13% Senior Subordinated Note due 2019	\$ 500,000	08/01/12	449,373	502,196
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	98,544
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	22,414 shs.	08/01/12	42,446	-
			616,819	600,740

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## 2012 Annual Report

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2012

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>ACP Cascade Holdings LLC</b>				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
Limited Liability Company Unit Class B (B)	32 uts.	11/09/12	\$ -	\$ -
<b>Advanced Manufacturing Enterprises LLC</b>				
A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
14% Senior Subordinated Note due 2018	\$ 1,136,065	12/07/12	1,119,171	1,134,707
Limited Liability Company Unit (B)	1,154 uts.	12/07/12	115,385	109,616
			1,234,556	1,244,323
<b>Advanced Technologies Holdings</b>				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	421 shs.	12/27/07	208,456	684,435
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	45,151
			230,056	729,586
<b>All Current Holding Company</b>				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$ 603,697	09/26/08	575,444	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	104,680
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	74,436
			693,331	782,813
<b>American Hospice Management Holding LLC</b>				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$ 1,687,503	*	1,669,540	1,687,503
Preferred Class A Unit (B)	1,706 uts.	**	170,600	342,965
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	89,515
Common Class B Unit (B)	16,100 uts.	01/22/04	1	-
Common Class D Unit (B)	3,690 uts.	09/12/06	-	-
			1,920,930	2,119,983
* 01/22/04 and 06/09/08.				
** 01/22/04 and 09/12/06.				
<b>AMS Holding LLC</b>				
A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.				
14.25% Senior Subordinated Note due 2019	\$ 1,142,472	10/04/12	1,120,211	1,142,963
Limited Liability Company Unit Class A Preferred (B)	114 uts.	10/04/12	113,636	107,948



1,233,847

1,250,911

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Babson Capital Participation Investors

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2012

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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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		
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