

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-30D

November 26, 2013

Babson Capital
Participation Investors

Report for the
Nine Months Ended September 30, 2013

Adviser

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

Transfer Agent & Registrar

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P.O. Box 219086
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Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Internet Website

www.babsoncapital.com/mpv

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

Babson Capital Participation Investors
c/o Babson Capital Management LLC
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Springfield, Massachusetts 01115
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Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

Investment Objective and Policy

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

The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade (as defined below), long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. These investments may 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), 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

Form N-Q

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

Proxy Voting Policies & Procedures; Proxy Voting Record

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

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 invest in high quality, readily marketable securities.

June 30 is available (1) on the Trust's website: <http://www.babsoncapital.com/mpv>; and (2) on the SEC's website at <http://www.sec.gov>.

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

Babson Capital Participation Investors

TO OUR SHAREHOLDERS

October 31, 2013

We are pleased to present the September 30, 2013 Quarterly Report of Babson Capital Participation Investors (the “Trust”).

The Board of Trustees declared a quarterly dividend of 27 cents per share, payable on November 8, 2013 to shareholders of record on October 28, 2013. The Trust paid a 27 cent per share dividend for the preceding quarter. The Trust earned 23 cents per share of net investment income for the third quarter of 2013, compared to 26 cents per share in the previous quarter.

During the third quarter, the net assets of the Trust increased to \$133,445,366 or \$13.05 per share compared to \$131,772,834 or \$12.90 per share on June 30, 2013. This translates into a 3.3% total return for the quarter, based on the change in the Trust’s net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 13.6%, 12.8%, 10.9%, and 13.3% for the 1-, 3-, 5-, and 10-year time periods, respectively, based on the change in the Trust’s net assets assuming the reinvestment of all dividends.

The Trust’s share price decreased 4.7% during the quarter, from \$14.63 per share as of June 30, 2013 to \$13.94 per share as of September 30, 2013. The Trust’s market price of \$13.94 per share equates to a 6.8% premium over the September 30, 2013 net asset value per share of \$13.05. The Trust’s average quarter-end premium for the 3, 5 and 10-year periods was 17.4%, 10.3% and 10.8%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 10.2% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 2.3% for the quarter.

The Trust closed two new private placement investments during the third quarter. The two new investments were in EPM Holding Company and Tranzonic Holdings LLC. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$2,354,000.

After a very sluggish first half of 2013, U.S. middle market buyout activity finally showed some signs of life during the third quarter. Our inflow of new investment opportunities increased significantly, particularly during the latter half of the quarter. We currently have a number of deals under review which we hope will turn into new investments for the Trust prior to year end. Competition for new investment opportunities continues to be intense though, as there is plenty of equity capital and senior and mezzanine debt looking to be invested. Attractive companies are being aggressively pursued by buyers and lenders alike, pushing both purchase price multiples and leverage levels to levels not seen since 2007 and 2008. Though we are actively closing new deals, we are doing so cautiously and with discipline, consistent with our longstanding investment philosophy of taking prudent levels of risk and getting paid appropriately for the risks taken. This approach has served us well for many years and through all kinds of market cycles.

(Continued)

The quality of the Trust's existing portfolio remained solid through the third quarter. We had five companies sold from the portfolio during the quarter. Three of these investments, Qualis Automotive LLC, RM Holding Company and The Tranzonic Companies, generated attractive returns for the Trust. Two of these investments, International Offshore Services LLC and Monessen Holding Corporation, resulted in losses for the Trust, as both of these companies had been struggling financially for quite some time. Since the end of the third quarter, we have had three additional companies sold. We also continue to have a healthy backlog of companies in the process of being sold, several of which are expected to close prior to year end. Refinancing activity in the portfolio was high once again in the third quarter. These transactions, in which the debt instruments held by the Trust were fully or partially prepaid, are being driven by companies seeking to take advantage of low interest rates and plentiful credit. We had seven full or partial prepayments in the third quarter, bringing the total to 21 full or partial prepayments so far this year. As mentioned in prior reports, the continued loss of these income-producing investments, without being offset by new investments, has negatively impacted the earnings of the Trust and could adversely impact the Trust's ability to sustain its dividend level in the quarters ahead.

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

Sincerely,

Michael L. Klofas
President

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

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

Babson Capital Participation Investors
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
September 30, 2013
(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$93,940,397)	\$91,475,650
Corporate restricted securities at market value (Cost - \$12,469,292)	12,617,535
Corporate public securities at market value (Cost - \$30,790,719)	31,868,137
Short-term securities at amortized cost	8,790,486
Total investments (Cost -\$145,990,894)	144,751,808
Cash	6,635,827
Interest receivable	1,340,791
Other assets	34,885
 Total assets	 152,763,311

Liabilities:

Note payable	15,000,000
Payable for investments purchased	3,090,000
Deferred tax liability	655,990
Investment advisory fee payable	300,252
Tax payable	78,614
Interest payable	27,267
Accrued expenses	165,822
 Total liabilities	 19,317,945

Total net assets	\$ 133,445,366
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Net Assets:

Common shares, par value \$.01 per share	\$ 102,290
Additional paid-in capital	95,583,503
Retained net realized gain on investments, prior years	33,733,164
Undistributed net investment income	3,628,766
Accumulated net realized gain on investments	2,292,719
Net unrealized depreciation of investments	(1,895,076)
Total net assets	\$ 133,445,366

Common shares issued and outstanding (14,785,750 authorized)	10,229,018
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Net asset value per share	\$ 13.05
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See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF OPERATIONS

For the nine months ended September 30, 2013

(Unaudited)

Investment Income:	
Interest	\$9,335,402
Dividends	121,696
Other	87,079
Total investment income	9,544,177
Expenses:	
Investment advisory fees	896,301
Interest	460,125
Trustees' fees and expenses	252,000
Professional fees	180,625
Reports to shareholders	67,500
Custodian fees	22,500
Other	17,887
Total expenses	1,896,938
Investment income - net	7,647,239
Net realized and unrealized gain on investments:	
Net realized loss on investments before taxes	(1,375,860)
Income tax expense	(9,701)
Net realized loss on investments after taxes	(1,385,561)
Net change in unrealized appreciation of investments before taxes	4,388,236
Net change in deferred income tax expense	(188,356)
Net change in unrealized appreciation of investments after taxes	4,199,880
Net gain on investments	2,814,319
Net increase in net assets resulting from operations	\$10,461,558

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors
CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2013
(Unaudited)

Net increase in cash:	
Cash flows from operating activities:	
Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$(1,272,563)
Purchases of portfolio securities	(22,328,656)
Proceeds from disposition of portfolio securities	28,524,667
Interest, dividends and other income received	8,665,143
Interest expense paid	(460,125)
Operating expenses paid	(1,407,251)
Income taxes paid	(996,682)
Net cash provided by operating activities	10,724,533
Cash flows from financing activities:	
Cash dividends paid from net investment income	(8,261,074)
Receipts for shares issued on reinvestment of dividends	621,280
Net cash used for financing activities	(7,639,794)
Net increase in cash	3,084,739
Cash - beginning of year	3,551,088
Cash - end of period	\$6,635,827
Reconciliation of net increase in net assets to net cash provided by operating activities:	
Net increase in net assets resulting from operations	\$10,461,558
Increase in investments	(1,880,974)
Increase in interest receivable	(208,917)
Decrease in other assets	31,929
Increase in payable for investments purchased	3,090,000
Increase in deferred tax liability	188,356
Increase in investment advisory fee payable	12,535
Decrease in tax payable	(986,981)
Increase in accrued expenses	17,027
Total adjustments to net assets from operations	262,975
Net cash provided by operating activities	\$10,724,533

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the nine months ended 09/30/2013 (Unaudited)	For the year ended 12/31/2012
Increase in net assets:		
Operations:		
Investment income - net	\$7,647,239	\$10,965,123
Net realized loss on investments after taxes	(1,385,561)	2,488,796
Net change in unrealized appreciation of investments after taxes	4,199,880	4,059,101
Net increase in net assets resulting from operations	10,461,558	17,513,020
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2013 - 45,769; 2012 - 71,363)	621,280	1,013,772
Dividends to shareholders from:		
Net investment income (2013 - \$0.54 per share; 2012 - \$1.04 per share)	(5,511,597)	(10,584,312)
Net realized gains (2013 - \$0.00 per share; 2012 - \$0.04 per share)	—	(388,021)
Total increase in net assets	5,571,241	7,554,459
Net assets, beginning of year	127,874,125	120,319,666
Net assets, end of period/year (including undistributed net investment income of \$3,628,766 and \$1,493,124, respectively)	\$133,445,366	\$127,874,125

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors
CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS
Selected data for each share of beneficial interest outstanding:

	For the nine months ended 09/30/2013 (Unaudited)	2012	For the years ended December 31,			2008
			2011	2010	2009	
Net asset value:						
Beginning of year	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84
Net investment income (a)	0.75	1.08	1.14	1.02	0.94	1.08
Net realized and unrealized gain (loss) on investments	0.28	0.64	0.08	0.95	(0.13)	(1.82)
Total from investment operations	1.03	1.72	1.22	1.97	(0.81)	0.74
Dividends from net investment income to common shareholders	(0.54)	(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	(0.00)(b)	0.02	0.02	0.01	0.00	0.00
Total dividends	(0.54)	(1.06)	(1.21)	(0.99)	(1.00)	(1.00)
Net asset value:						
End of period/year	\$ 13.05	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10
Per share market value:						
End of period/year	\$ 13.94	\$ 13.91	\$ 15.85	\$ 13.88	\$ 12.20	\$ 9.05
Total investment return						
Net asset value (c)	8.31%	15.89%	10.56%	18.71%	7.60%	(6.01%)
Market value (c)	4.27%	(4.54%)	24.16%	22.94%	40.86%	(25.36%)
Net assets (in millions):						
End of period/year	\$ 133.45	\$ 127.87	\$ 120.32	\$ 119.54	\$ 108.93	\$ 110.18
Ratio of operating expenses to average net assets	1.46%(e)	1.51%	1.42%	1.46%	1.41%	1.33%

Ratio of interest expense to average net assets	0.47%(e)	0.49%	0.56%	0.61%	0.63%	0.58%
Ratio of income tax expense to average net assets (d)	0.01%(e)	0.83%	0.20%	0.46%	0.00%	0.00%
Ratio of net expenses to average net assets	1.94%(e)	2.83%	2.18%	2.53%	2.04%	1.91%
Ratio of net investment income to average net assets	7.75%(e)	8.82%	9.33%	8.96%	8.55%	8.74%
Portfolio turnover	19%	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.

(e) Annualized

Senior borrowings:

Total principal amount (in millions)	\$ 15	\$ 15	\$ 15	\$ 12	\$ 12	\$ 12
Asset coverage per \$1,000 of indebtedness	\$ 9,896	\$ 9,525	\$ 9,021	\$ 10,962	\$ 10,077	\$ 10,181

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2013

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 78.00%: (A)				
Private Placement Investments - 68.55%				
1492 Acquisition LLC				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated Note due 2019	\$1,158,173	10/17/12	\$1,137,394	\$1,160,511
Limited Liability Company Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	39,525
Limited Liability Company Unit Class A Preferred (B)	102 uts.	10/17/12	102,270	108,199
			1,251,028	1,308,235
A E Company, Inc.				
A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.				
	184,615			
Common Stock (B)	shs.	11/10/09	184,615	281,974
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566	140,988
			253,181	422,962
A H C Holding Company, Inc.				
A designer and manufacturer of boilers and water heaters for the commercial sector.				
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009	196,943
A S C Group, Inc.				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and components primarily for the military and aerospace sectors.				
Limited Liability Company Unit Class A (B)	2,186 uts.	*	78,340	148,255
Limited Liability Company Unit Class B (B)	1,479 uts.	10/09/09	52,999	100,306
* 10/09/09 and 10/27/10.			131,339	248,561
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	210,000
13% Senior Subordinated Note due 2015 (D)	\$420,000	05/15/08	384,627	—
Common Stock (B)	60,000 shs.	05/15/08	60,000	—
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	—
			894,225	210,000
ABC Industries, Inc.				

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A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 2019	\$500,000	08/01/12	452,933	495,176
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	125,000
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	22,414 shs.	08/01/12	42,446 620,379	22,414 642,590

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Babson Capital Participation Investors
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2013
(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
ACP Cascade Holdings LLC 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	\$—	\$—
Advanced Manufacturing Enterprises LLC A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
14% Senior Subordinated Note due 2018	\$1,134,615	12/07/12	1,119,149	1,060,596
Limited Liability Company Unit (B)	1,431 uts.	12/07/12	143,077	97,484
			1,262,226	1,158,080
Advanced Technologies Holdings A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	421 shs.	12/27/07	208,456	906,404
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	59,794
			230,056	966,198
All Current Holding Company A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
Common Stock (B)	713 shs.	09/26/08	71,303	140,733
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	100,073
			117,887	240,806
American Hospice Management Holding LLC A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$1,237,502	*	1,233,527	1,237,502
Preferred Class A Unit (B)	1,706 uts.	**	170,600	270,353
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	184,975
Common Class B Unit (B)	16,100 uts.	01/22/04	1	—
Common Class D Unit (B)	3,690 uts.	09/12/06	—	—
			1,484,917	1,692,830
* 01/22/04 and 06/09/08. ** 01/22/04 and 09/12/06.				
AMS Holding LLC A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.				
14.25% Senior Subordinated Note due 2019	\$1,161,860	10/04/12	1,141,139	1,169,782
Limited Liability Company Unit Class A Preferred (B)	114 uts.	10/04/12	113,636	113,630
			1,254,775	1,283,412

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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	932,015	1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	238,040
Common Stock (B)	723 shs.	04/28/09	723	104,529
			1,095,007	1,355,069

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2013

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Arch Global Precision LLC				
A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$787,384	12/21/11	\$771,048	\$784,831
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	31,718
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	221,582	247,292
			1,021,048	1,063,841
ARI Holding Corporation				
A leading national supplier of products used primarily by specialty contractors.				
13.5% Senior Subordinated Note due 2020	\$1,310,231	05/21/13	1,284,995	1,296,675
Preferred Stock Series (B)	29 shs.	05/21/13	289,604	292,174
Common Stock (B)	29 shs.	05/21/13	32,178	52,162
			1,606,777	1,641,011
Arrow Tru-Line Holdings, Inc.				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
12% Senior Subordinated Note due 2016 (D)	\$780,136	05/18/05	721,805	780,136
Preferred Stock (B)	33 shs.	10/16/09	33,224	89,975
Common Stock (B)	263 shs.	05/18/05	263,298	5,424
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	69 shs.	05/18/05	59,362	1,422
			1,077,689	876,957
Baby Jogger Holdings LLC				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019	\$942,213	04/20/12	926,291	961,057
Common Stock (B)	754 shs.	04/20/12	75,376	129,785
			1,001,667	1,090,842
Blue Wave Products, Inc.				
A distributor of pool supplies.				
10% Senior Secured Term Note due 2018	\$317,730	10/12/12	312,166	313,711
13% Senior Subordinated Note due 2019	\$320,831	10/12/12	299,370	315,160
Common Stock (B)	51,064 shs.	10/12/12	51,064	55,428
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	20,216 shs.	10/12/12	20,216	21,944
			682,816	706,243
BP SCI LLC				
A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.				
14% Senior Subordinated Note due 2018	\$1,061,835	10/17/12	1,043,259	1,026,529
Limited Liability Company Unit Class A (B)	417 uts.	10/17/12	41,667	34,173
Limited Liability Company Unit Class B (B)	167 uts.	10/17/12	166,666	181,299

1,251,592 1,242,001

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Babson Capital Participation Investors
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2013
(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities: (A) (Continued)				
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 Preferred Stock Class A (B)	\$1,207,902	06/30/06	\$1,197,327	\$1,147,507
Common Stock (B)	465 shs.	06/30/06	141,946	63,352
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	1 sh.	06/30/06	152	—
	164 shs.	06/30/06	48,760	22,264
			1,388,185	1,233,123
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	\$80,451	08/07/08	80,164	80,451
12.5% Senior Subordinated Note due 2015	\$429,070	08/07/08	413,907	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	78,318
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965	61,580
			568,896	649,419
Capital Specialty Plastics, Inc.				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	615,077
*12/30/97 and 05/29/99.				
CG Holdings Manufacturing Company				
A coating provider in the fragmented North American market, serving the automotive, agricultural, heavy truck and other end markets.				
13% Senior Subordinated Note due 2019	\$1,136,364	05/09/13	1,071,862	1,143,101
Preferred Stock (B)	1,023 shs.	05/09/13	102,272	100,931
Preferred Stock-OID (B)	402 shs.	05/09/13	40,215	39,692
Common Stock (B)	105 shs.	05/09/13	11,364	6,990
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	48 shs.	05/09/13	4,465	3,206
			1,230,178	1,293,920
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	\$742,294	01/19/11	711,069	757,139
14% Senior Subordinated Note due 2019	\$191,948	08/03/12	188,597	192,631

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Common Stock (B)	375 shs.	01/19/11	37,500	47,249
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250 966,416	37,140 1,034,159

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2013

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$412,242	03/26/12	\$400,967	\$409,834
Common Stock (B)	1,327 shs.	*	132,700	116,238
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	57 shs.			