BABSON CAPITAL PARTICIPATION INVESTORS
Form N-30D
November 26, 2013

Babson Capital
Participation Investors

Report for the
Nine Months Ended September 30, 2013

Adviser

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Transfer Agent & Registrar

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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

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

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

Investment Objective and Policy

Babson Capital Participation Investors (the "Trust") is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol "MPV". The Trust's share price can be found in the financia 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.

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.

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 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
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
Net asset value per share	$13.05

See Notes to Consolidated Financial Statements

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 cas	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)	For the years ended December 31, 2012	2011	2010	2009	2008
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)

Corporate Restricted Securities - 78.00%: (A)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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.				
Common Stock (B)	184,615 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.				

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	22,414
			620,379	642,590

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	—	—
* 01/22/04 and 06/09/08.			1,484,917	1,692,830
** 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

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

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	$1,207,902	06/30/06	$1,197,327	$1,147,507
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	63,352
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	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

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	37,140
			966,416	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.	03/26/12	5,740	4,993
*03/26/12, 05/25/12 and 06/19/12.			539,407	531,065
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	146,594	211,728
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	759,166
Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	82,613	50,504
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	39,148
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	—	722,809
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	—	—
			861,668	1,571,627
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	285,676
Preferred Stock Series C (B)	3,748 shs.	07/05/07	125,207	117,914
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	403,590
CorePharma LLC				
A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.				
Warrant, exercisable until 2015, to purchase common stock at $.001 per share (B)	10 shs.	08/04/05	72,617	267,235
Crane Rental Corporation				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	$1,032,750	08/21/08	991,546	1,032,750

Common Stock (B)	135,000 shs.	08/21/08	135,000	157,227
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	72,037 shs.	08/21/08	103,143	83,897
			1,229,689	1,273,874

Babson Capital Participation Investors
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
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.				
Preferred Stock PIK (B)	156 shs.	10/27/09	$156,468	$207,319
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	151,471
Common Stock (B)	38 shs.	10/27/09	38,244	74,565
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	28 shs.	10/27/09	25,735	54,481
			324,821	487,836
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	$1,315,818	05/04/12	1,293,498	1,248,980
Preferred Stock (B)	25 shs.	05/04/12	252,434	265,864
Common Stock (B)	25 shs.	05/04/12	28,048	48,476
			1,573,980	1,563,320
Duncan Systems, Inc.				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2013	$77,143	11/01/06	77,125	77,018
13% Senior Subordinated Note due 2014	$488,572	11/01/06	476,894	483,239
Common Stock (B)	102,857 shs.	11/01/06	102,857	24,060
Warrant, exercisable until 2014, to purchase common stock at $.01 per share (B)	32,294 shs.	11/01/06	44,663	7,554
			701,539	591,871
E S P Holdco, Inc.				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
Common Stock (B)	349 shs.	01/08/08	174,701	250,747
Eatem Holding Company				
A developer and manufacturer of savory flavor systems for soups, sauces, gravies, and other products produced by food manufacturers for retail and foodservice end products.				
12.5% Senior Subordinated Note due 2018	$950,000	02/01/10	863,656	933,842
Common Stock (B)	50 shs.	02/01/10	50,000	59,368
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	119 shs.	02/01/10	107,100	141,557
			1,020,756	1,134,767

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	$938,675	03/01/12	923,269	934,459
Common Stock (B)	41 shs.	03/01/12	90,909	62,299
			1,014,178	996,758

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
EPM Holding Company				
A provider of non-discretionary regulatory driven engineering services that support mission critical safety and operational aspects of nuclear power plants.				
14.5% Senior Subordinated Note due 2019	$578,124	07/26/13	$566,836	$573,430
Common Stock (B)	1,535 shs.	07/26/13	153,474	145,800
			720,310	719,230
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	$921,011	09/27/10	910,320	921,011
Limited Liability Company Unit Preferred (B)	171 uts.	09/27/10	58,345	191,764
Limited Liability Company Unit (B)	171 uts.	09/27/10	17,073	20,261
			985,738	1,133,036
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.				
13.25% Senior Subordinated Note due 2018	$ 436,475	05/02/13	432,396	436,624
14.25% Senior Subordinated Note due 2018	$ 114,042	02/29/12	114,073	114,156
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	160,843
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	20,165
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	17,556
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	25,924
			651,515	775,268
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 2014 (D)	$655,392	04/13/06	519,050	655,392
14% Senior Subordinated Note due 2015 (D)	$432,280	04/13/06	290,908	40,827
			809,958	696,219
G C Holdings				

A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.				
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	198 shs.	10/19/10	46,958	653,247
GD Dental Services LLC				
A provider of convenient “onestop” general, specialty, and cosmetic dental services with 21 offices located throughout South and Central Florida.				
Limited Liability Company Unit Common (B)	767 uts.	10/05/12	767	2,198
Limited Liability Company Unit Preferred (B)	76 uts.	10/05/12	75,920	80,467
			76,687	82,665

Babson Capital Participation Investors
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
gloProfessional Holdings, Inc.				
A marketer and distributor of premium mineral-based cosmetics, cosmeceuticals and professional hair care products to the professional spa and physician's office channels.				
14% Senior Subordinated Note due 2019	$ 1,143,427	03/27/13	$ 1,122,060	$ 1,118,236
Common Stock (B)	1,181 shs.	03/27/13	118,110	106,589
			1,240,170	1,224,825
Golden County Foods Holding, Inc.				
A manufacturer of frozen appetizers and snacks.				
14% 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	—
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	—
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	434,765	475,385
Common Stock (B)	38 shs.	11/14/11	38,461	92,732
Warrant, exercisable until 2021, to purchase common stock at $.01 per share (B)	28 shs.	11/14/11	25,596	66,402
			498,822	634,519

Healthcare Direct Holding Company				
A direct-to-customer marketer of discount dental plans.				
14% Senior Subordinated Note due 2019	$720,726	03/09/12	708,867	686,283
Common Stock (B)	517 shs.	03/09/12	51,724	14,339
			760,591	700,622

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
Hi-Rel Group LLC				
A manufacturer and distributor of precision metal piece parts for the microelectronic packaging industry, serving the aerospace/ defense, telecommunications, and medical end markets.				
12% Senior Subordinated Note due 2018	$ 703,125	04/15/13	$ 659,812	$ 693,230
Limited Liability Company Unit (B)	234 uts.	04/15/13	234,375	225,205
Warrant, exercisable until 2020, to purchase common stock at $.01 per share (B)	37,177 shs.	04/15/13	32,344	26,756
			926,531	945,191
Home Décor Holding Company				
A designer, manufacturer and marketer of framed art and wall décor products.				
Common Stock (B)	33 shs.	*	33,216	84,406
Warrant, exercisable until 2013, to purchase common stock at $.02 per share (B)	106 shs.	*	105,618	268,361
* 06/30/04 and 08/19/04.			138,834	352,767
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.				
	$ 1,098,837	08/19/08	1,057,909	1,060,814

12% Senior Subordinated Note due 2016				
Common Stock (B)	251 shs.	08/19/08	251,163	71,314
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	65 shs.	08/19/08	60,233	18,433
			1,369,305	1,150,561
HVAC Holdings, Inc.				
A provider of integrated energy efficiency services and maintenance programs for HVAC systems.				
14% Senior Subordinated Note due 2019	$ 1,159,519	09/27/12	1,138,857	1,146,133
Preferred Stock Series A (B)	1,127 shs.	09/27/12	112,726	123,393
Common Stock (B)	910 shs.	09/27/12	910	7,779
			1,252,493	1,277,305
Ideal Tridon Holdings, Inc.				
A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.				
Common Stock (B)	93 shs.	10/27/11	92,854	159,765

Babson Capital Participation Investors
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
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	$304,415
J A C Holding Enterprises, Inc.				
A supplier of luggage racks and accessories to the original equipment manufacturers.				
Preferred Stock A (B)	165 shs.	12/20/10	165,000	23,401
Preferred Stock B (B)	0.06 shs.	12/20/10	—	81
Common Stock (B)	33 shs.	12/20/10	1,667	48,239
Warrant, exercisable until 2020, to purchase common stock at $.01 per share (B)	12 shs.	12/20/10	105,643	17,498
			272,310	289,219
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
JMH Investors LLC				
A developer and manufacturer of custom formulations for a wide variety of foods.				
14.25% Senior Subordinated Note due 2019	$1,051,839	12/05/12	1,032,670	1,024,118
Limited Liability Company Unit (B)	217,391 uts.	12/05/12	217,391	168,833
			1,250,061	1,192,951
K & N Parent, Inc.				
A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.				
14% Senior Subordinated Note due 2019	$1,142,745	12/23/11	1,117,384	1,144,916
Preferred Stock Series A (B)	102 shs.	12/23/11	39,887	116,758
Preferred Stock Series B (B)	29 shs.	12/23/11	—	33,043
Common Stock (B)	130 shs.	12/23/11	6,522	49,351
			1,163,793	1,344,068
K N B Holdings Corporation				
A designer, manufacturer and marketer of products for the custom framing market.				
14% Senior Subordinated Note due 2017	$2,285,801	*	2,140,034	2,285,801
Common Stock (B)	71,053 shs.	05/25/06	71,053	37,820
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	43,600 shs.	05/25/06	37,871	23,208
* 5/25/06 and 04/12/11.			2,248,958	2,346,829
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.

Common Stock (B)	232,826 shs.	12/10/10	232,826	269,490

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
K P I Holdings, Inc.				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
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	49,533
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	51 shs.	07/16/08	50,836	10,726
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	67 shs.	09/17/09	—	14,220
			327,925	171,359
LPC Holding Company				
A designer and manufacturer of precision-molded silicone rubber components that are utilized in the medical and automotive end markets.				
Common Stock (B)	105 shs.	08/15/11	105,019	146,673
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	15,917
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	35 shs.	09/12/08	34,714	17,190
			66,857	33,107
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	251,028
Warrant, exercisable until 2014, to purchase common stock at $.01 per share (B)	1,787 shs.	05/04/07	22,781	35,146
* 05/04/07 and 01/02/08.			189,262	286,174
Manhattan Beachwear Holding Company				
A designer and distributor of women’s swimwear.				
12.5% Senior Subordinated Note due 2018	$419,971	01/15/10	383,693	419,971
15% Senior Subordinated Note due 2018	$110,334	10/05/10	108,826	105,705
Common Stock (B)	35 shs.	10/05/10	35,400	83,570
Common Stock Class B (B)	118 shs.	01/15/10	117,647	277,742
Warrant, exercisable until 2019, to purchase common stock at $.01 per share (B)	104 shs.	01/15/10	94,579	245,801

740,145 1,132,789

Babson Capital Participation Investors
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
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	$449,002	09/20/11	$442,035	$457,982
Limited Liability Company Unit Class A (B)	2,900 uts.	09/20/11	60,000	130,662
Limited Liability Company Unit Class D (B)	291 uts.	09/20/11	—	7,854
			502,035	596,498
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	*	1,052,196	1,117,495
Preferred Stock Series A (B)	1,388 shs.	09/07/10	138,797	395,915
Common Stock (B)	162 shs.	03/01/11	16,226	46,209
Common Stock (B)	153 shs.	09/07/10	15,282	43,642
Warrant, exercisable until 2020, to purchase common stock at $.01 per share (B)	103 shs.	03/01/11	10,325	29,380
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	386 shs.	09/07/10	38,623	110,103
* 09/07/10 and 03/01/11.			1,271,449	1,742,744
MedSystems Holdings LLC				
A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.				
Preferred Unit (B)	66 uts.	08/29/08	66,451	87,200
Common Unit Class A (B)	671 uts.	08/29/08	671	30,268
Common Unit Class B (B)	250 uts.	08/29/08	63,564	11,262
			130,686	128,730
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	87,027
Limited Partnership Interest (B)	0.74% int.	09/16/08	205,932	411,103
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	18 shs.	09/24/08	18,237	64,011
			278,209	562,141
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	417,818	428,598
Limited Liability Company Unit Series B (B)	155,945 uts.	09/22/11	155,945	171,794
			573,763	600,392

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
MicroGroup, Inc.				
A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.				
7% Senior Subordinated Note due 2014 (D)	$902,727	*	$$865,676	225,682
Preferred Stock Series A (B)	519 shs.	10/10/12	498,734	—
Common Stock (B)	238 shs.	*	238,000	—
Common Stock Series B (B)	597 shs.	10/10/12	6	—
Warrant, exercisable until 2014, to purchase common stock at $.02 per share (B)	87 shs.	*	86,281	—
*08/12/05 and 09/11/06.			1,688,697	225,682
MNX Holding Company				
An international third party logistics Company providing customized logistics services to customers across the globe.				
14% Senior Subordinated Note due 2019	$1,227,538	11/02/12	1,205,400	1,217,149
Common Stock (B)	45 shs.	11/02/12	44,643	36,819
			1,250,043	1,253,968
Motion Controls Holdings				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated Note due 2017	$952,954	11/30/10	940,821	936,343
Limited Liability Company Unit Class B-1 (B)	93,750 uts.	11/30/10	—	83,425
Limited Liability Company Unit Class B-2 (B)	8,501 uts.	11/30/10	—	7,565
			940,821	1,027,333
NABCO, Inc.				
A producer of explosive containment vessels in the United States.				
Common Stock (B)	429 shs.	12/20/12	306,091	101,379
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	1,017,703	1,008,389
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	227,849
Limited Liability Company Unit Class D-2 of				

Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	34,547	234,385
* 12/18/08 and 09/30/09.			1,770,360	1,470,623

Babson Capital Participation Investors
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
Nicoat Acquisitions LLC				
A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications.				
14% Senior Subordinated Note due 2018	$489,858	11/05/10	$459,534	$494,757
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	21,334
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	43,223
Limited Liability Company Unit Series F (B)	52,172 uts.	11/05/10	—	228,889
			511,706	788,203
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	*	1,332,442	1,469,871
Limited Partnership Interest (B)	1,740 uts.	*	174,006	86,411
Warrant, exercisable until 2019, to purchase common stock at $.01 per share (B)	2,605 shs.	*	260,479	129,353
*07/09/09 and 08/09/10.			1,766,927	1,685,635
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	828,558	891,948
Common Stock (B)	126 shs.	*	125,883	144,168
Warrant, exercisable until 2021, to purchase common stock at $.01 per share (B)	59 shs.	02/02/11	52,987	67,285
* 02/02/11 and 06/30/11.			1,007,428	1,103,401
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	418,332	444,445
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	23,923
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	13,452
Common Stock (B)	344 shs.	06/04/10	344	—
			505,155	481,820
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	848,861
Warrant, exercisable until 2013, to purchase common stock at $.01 per share (B)	328 shs.	01/17/06	90,424	143,319
			393,309	992,180

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
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	$1,640,976	12/21/10	$1,628,712	$1,657,385
Preferred Stock Class A (B)	29 shs.	12/21/10	180,380	331,326
Common Stock (B)	29 shs.	12/21/10	13,500	31,762
			1,822,592	2,020,473
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	$971,269	12/20/10	958,468	955,174
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	103,759
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	1,072	103,759
			1,065,611	1,162,692
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.				
0% Senior Subordinated Note due 2014	$42,188	12/18/12	—	42,188
Paradigm Packaging, Inc.				
A manufacturer of plastic bottles and closures for the nutritional, pharmaceutical, personal care, and food packaging markets.				
12% Senior Subordinated Note due 2016	$843,750	12/19/00	842,387	843,750
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	197 shs.	12/21/00	140,625	168,718
			983,012	1,012,468
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	—
Petroplex Inv Holdings LLC				
A leading provider of acidizing services to E&P customers in the Permian Basin.				
16% Senior Subordinated Note due 2018	$1,131,397	11/29/12	1,106,824	1,098,294
Limited Liability Company Unit (B)	156,250 uts.	11/29/12	156,250	147,942
			1,263,074	1,246,236

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Babson Capital Participation Investors
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
Postle Aluminum Company LLC				
A manufacturer and distributor of aluminum extruded products.				
15% Senior Subordinated Note due 2013	$894,711	06/03/10	$893,814	$894,711
Limited Liability Company Unit Class A (B)	733 uts.	10/02/06	270,000	124,146
Limited Liability Company Unit (B)	76 uts.	05/22/09	340	12,876
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	4,550 shs.	10/02/06	65,988	770,950
			1,230,142	1,802,683
Precision Wire Holding Company				
A manufacturer of specialty medical wires that are used in non-elective minimally invasive surgical procedures.				
Warrant, exercisable until 2019, to purchase common stock at $.01 per share (B)	109 shs.	11/12/09	107,970	185,142
R A J Manufacturing Holdings LLC				
A designer and manufacturer of women’s swimwear sold under a variety of licensed brand names.				
14.5% Senior Subordinated Note due 2014	$831,458	12/15/06	811,311	415,729
Limited Liability Company Unit (B)	1,497 uts.	12/15/06	149,723	—
Warrant, exercisable until 2014, to purchase common stock at $.01 per share (B)	2 shs.	12/15/06	69,609	—
			1,030,643	415,729
REVSpring, Inc.				
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	$1,154,960	*	1,137,753	1,148,961
Limited Liability Company Unit Class A (B)	13,548 uts.	*	135,477	177,392
* 10/21/11 and 08/03/12.			1,273,230	1,326,353
Rose City Holding Company				
A designer and printer of folding cartons and packaging for food and beverage manufacturers on the West Coast.				
14.5% Senior Subordinated Note due 2018	$597,772	12/11/12	587,230	590,192
Preferred Stock (B)	39,062 shs.	12/11/12	39,062	41,279
Common Stock (B)	39 shs.	12/11/12	4	10,627
			626,296	642,098
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	$843,750	*	832,951	853,635
Preferred Stock (B)	2,098 shs.	03/30/12	83,920	92,151
Common Stock (B)	983 shs.	03/30/12	9,830	—
* 03/30/12 and 05/16/13.			926,701	945,786

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
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	$ —
Signature Systems Holding Company				
A seller and installer of a variety of modular surfaces, industrial matting and related products used for ground protection.				
12.5% Senior Subordinated Note due 2021	$755,088	03/15/13	713,383	752,193
Common Stock (B)	76 shs.	03/15/13	75,509	73,480
Warrant, exercisable until 2023, to purchase common stock A at $.01 per share (B)	31 shs.	03/15/13	28,316	30,021
			817,208	855,694
Smart Source Holdings LLC				
A short-term computer rental company.				
Limited Liability Company Unit (B)	328 uts.	*	261,262	431,771
Warrant, exercisable until 2015, to purchase common stock at $.01 per share (B)	83 shs.	*	67,467	109,368
* 08/31/07 and 03/06/08.			328,729	541,139
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 2020	$ 894,162	11/12/10	856,439	903,104
Preferred Stock A (B)	1,132 shs.	11/12/10	100,501	77,140
Preferred Stock B (B)	525 shs.	11/12/10	—	35,796
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	—
			965,325	1,016,040
SouthernCare Holdings, Inc.				
A hospice company providing palliative care services to terminally ill patients.				
Common Stock (B)	909 shs.	12/01/11	90,909	97,959
Spartan Foods Holding Company				

A manufacturer of branded pizza crusts and pancakes.				
14.25% Senior Subordinated Note due 2017	$ 1,200,671	12/15/09	1,084,106	1,166,047
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	136 shs.	12/15/09	120,234	46,640
			1,204,340	1,212,687

Babson Capital Participation Investors
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
Specialty Commodities, Inc.				
A distributor of specialty food ingredients.				
Common Stock (B)	16 shs.	10/23/08	$158,824	$244,481
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	6 shs.	10/23/08	53,285	92,362
			212,109	336,843
Stag Parkway Holding Company				
A distributor of RV parts and accessories in the United States.				
13% Senior Subordinated Note due 2018	$1,140,654	12/19/12	1,091,594	1,139,462
Common Stock (B)	118 shs.	12/19/12	118,203	118,258
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	35 shs.	12/19/12	31,848	34,727
			1,241,645	1,292,447
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	$959,148	07/01/11	943,703	239,787
Preferred Stock Series A (B)	76 shs.	07/01/11	76,046	—
			1,019,749	239,787
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	—	—
Sunrise Windows Holding Company				
A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.				
14% Senior Subordinated Note due 2017	$1,017,818	12/14/10	976,854	995,448
14% Senior Subordinated PIK Note due 2017	$87,507	08/17/12	84,522	85,584
Common Stock (B)	38 shs.	12/14/10	38,168	14,735
Warrant, exercisable until 2020, to purchase common stock at $.01 per share (B)	37 shs.	12/14/10	37,249	14,380
			1,136,793	1,110,147
Synteract Holdings Corporation				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
14% Senior Subordinated Note due 2019	$1,755,076	09/02/08	1,690,254	1,755,076
Preferred Stock Series D (B)	257 shs.	02/27/13	25,678	37,578

Redeemable Preferred Stock Series A (B)	678 shs.	09/02/08	6,630	—
Warrant, exercisable until 2018, to purchase common stock at $.01 per share (B)	6,778 shs.	09/02/08	59,661	—
			1,782,223	1,792,654

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
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)	$ 609,375	*	$ 254,802	$ —
Common Stock Class B	32 shs.	*	20,136	—
Limited Partnership Interest of Saw Mill Capital Fund V, LLC (B)	2.27% int.	**	146,349	—
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.			455,025	—
**03/01/05 and 10/10/08.				
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	1,300,003
Series B Preferred Stock (B)	97 shs.	03/31/10	—	135,013
Common Stock (B)	273 shs.	03/31/10	219,203	—
			1,356,038	1,435,016
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	903,275	703,988
Common Stock (B)	110 shs.	10/31/07	110,430	—
Warrant, exercisable until 2015, to purchase common stock at $.01 per share (B)	50 shs.	10/31/07	46,380	—
			1,060,085	703,988
Tranzonic Holdings LLC				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
14% Senior Subordinated Note due 2019	$1,484,249	07/05/13	1,455,468	1,477,885
Limited Liability Company Unit Class A (B)	147,727 shs.	07/05/13	147,727	140,341
			1,603,195	1,618,226

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 2016	$1,222,698	*	1,193,257	1,211,947
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	325,146
Common Stock (B)	393 shs.	*	423,985	—
Warrant, exercisable until 2017, 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.			1,829,569	1,537,093

Babson Capital Participation Investors
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
TruStile Doors, Inc.				
A manufacturer and distributor of interior doors.				
Limited Liability Company Unit (B)	5,888 uts.	02/28/11	$93,750	$222,088
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	3,060 shs.	04/11/03	36,032	50,592
			129,782	272,680
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	177,461
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	122 shs.	04/30/04	112,106	224,587
			208,506	402,048
U M A Enterprises, Inc.				
An importer and wholesaler of home décor products.				
Convertible Preferred Stock (B)	470 shs.	02/08/08	469,565	1,050,350
Visioneering, Inc.				
A designer and manufacturer of tooling and fixtures for the aerospace industry.				
10.5% Senior Secured Term Loan due 2015	$414,706	05/17/07	414,552	415,863
13% Senior Subordinated Note due 2014	$370,588	05/17/07	364,863	370,588
18% PIK Convertible Preferred Stock (B)	21,361 shs.	03/13/09	41,440	81,678
Common Stock (B)	70,588 shs.	05/17/07	70,588	195,137
Warrant, exercisable until 2014, to purchase common stock at $.01 per share (B)	20,003 shs.	05/17/07	31,460	55,297
			922,903	1,118,563
Vitex Packaging Group, Inc.				
A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.				
Class B Unit (B)	406,525 uts.	10/29/09	$184,266	$—
Class C Unit (B)	450,000 uts.	10/29/09	413,244	439,668
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.			923,711	439,668
Wellborn Forest Holding Company				

A manufacturer of semi-custom kitchen and bath cabinetry.				
12.13% Senior Subordinated Note due 2016	$911,250	11/30/06	867,531	227,813
Common Stock (B)	101 shs.	11/30/06	101,250	—
Warrant, exercisable until 2016, to purchase common stock at $.01 per share (B)	51 shs.	11/30/06	45,790	—
			1,014,571	227,813

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)				
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	95,548
Common Stock (B)	353 shs.	06/08/10	353	5,460
			70,661	101,008
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	744,973	768,569
Common Stock (B)	205 shs.	12/16/10	205,480	110,394
Warrant, exercisable until 2018, to purchase common stock at $.02 per share (B)	55 shs.	12/16/10	49,334	29,667
			999,787	908,630
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	$891,468	11/03/11	877,513	906,210
Common Stock (B)	1,500 shs.	11/03/11	150,000	191,881
			1,027,513	1,098,091
Total Private Placement Investments (E)			$93,940,397	$91,475,650

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

Corporate Restricted Securities: (A) (Continued)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
Rule 144A Securities - 9.45%:					
Bond 9.45%					
AAR Corporation	7.250	01/15/22	$ 500,000	$ 535,961	$ 521,250
ADT Corporation	6.250	10/15/21	930,000	930,000	943,950
ArcelorMittal	6.125	06/01/18	500,000	512,576	530,000
Coeur d'Alene Mines Corporation	7.875	02/01/21	500,000	501,863	505,000
Cornerstone Chemical Company	9.375	03/15/18	375,000	384,452	392,813
First Data Corporation	7.375	06/15/19	250,000	250,000	263,125
FMG Resources	7.000	11/01/15	250,000	255,315	257,500
Forum Energy Technologies	6.250	10/01/21	160,000	160,000	161,000
Hercules Offshore, Inc.	7.500	10/01/21	750,000	750,000	750,000
Hilcorp Energy Company	7.625	10/01/21	325,000	312,553	347,750
Hilton Worldwide Holdings, Inc.	5.625	10/15/21	750,000	750,000	751,875
J.B. Poindexter Co., Inc.	9.000	04/01/22	500,000	500,000	525,000
LBC Tank Terminals Holding Netherlands B.V.	6.875	05/15/23	663,000	684,539	666,314
Lear Corporation	4.750	01/15/23	375,000	367,793	347,813
Linn Energy, LLC	8.625	04/15/20	500,000	504,948	516,875
MEG Energy Corporation	6.375	01/30/23	500,000	500,000	490,000
MEG Energy Corporation	7.000	03/31/24	500,000	500,000	503,125
NXP BV/NXP Funding LLC	3.750	06/01/18	750,000	750,000	731,250
Penske Corporation	4.875	07/11/22	500,000	498,066	509,176
RKI Inc.	8.500	08/01/21	500,000	502,479	502,500
Safway Group Holding LLC/Finance Corporation	7.000	05/15/18	250,000	250,000	253,750
Samson Investment Company	9.750	02/15/20	350,000	344,290	371,000
Sirius XM Radio Inc.	5.875	10/01/20	445,000	445,000	448,894
Sprint Corporation	7.875	09/15/23	500,000	500,000	510,000
Univision Communications	5.125	05/15/23	160,000	160,000	153,200
Valeant Pharmaceuticals International	7.000	10/01/20	250,000	250,742	265,000
Welltec A/S	8.000	02/01/19	375,000	368,715	399,375
Total Bonds				12,469,292	12,617,535

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2013
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Interest Rate	Due Date	Shares	Cost	Market Value
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				12,469,292	12,617,535
Total Corporate Restricted Securities				$ 106,409,689	$ 104,093,185

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

Corporate Public Securities - 23.88%: (A)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
Bonds -23.86%					
Accuride Corp	9.500 %	08/01/18	$ 500,000	$ 484,110	$ 521,250
Alcoa, Inc.	6.150	08/15/20	600,000	627,312	625,933
Alliant Techsystems Inc.	6.875	09/15/20	500,000	534,205	530,000
Ally Financial, Inc.	5.500	02/15/17	750,000	762,684	787,099
Alta Mesa Financial Services	9.625	10/15/18	750,000	729,473	791,250
Anglogold Holdings PLC	5.375	04/15/20	600,000	604,816	536,001
Avis Budget Car Rental	9.750	03/15/20	375,000	375,000	432,187
B E Aerospace, Inc.	6.875	10/01/20	250,000	256,170	273,125
B&G Foods, Inc.	4.625	06/01/21	440,000	440,000	420,200
Bank of America Corporation	5.875	01/05/21	600,000	621,397	680,002
Bill Barrett Corporation	7.000	10/15/22	500,000	480,535	483,750
Brunswick Corporation	7.125	08/01/27	500,000	504,777	518,750
C R H America, Inc.	5.300	10/15/13	500,000	499,138	500,756
Calumet Specialty Products Partners L.P.	9.375	05/01/19	375,000	352,956	411,563
Calumet Specialty Products Partners L.P.	9.625	08/01/20	500,000	491,921	552,500
CCO Holdings Capital Corporation	5.250	09/30/22	500,000	495,403	462,500
Centurytel, Inc.	5.000	02/15/15	500,000	504,934	520,000
CHC Helicopter SA	9.250	10/15/20	1,000,000	933,935	1,065,000
CIT Group, Inc.	5.000	08/15/22	500,000	500,000	488,750
Clearwater Paper Corporation	4.500	02/01/23	500,000	495,200	450,000
Commercial Metals Company	4.875	05/15/23	750,000	751,530	675,000
Continental Resources, Inc.	5.000	09/15/22	500,000	510,802	503,125
CVR Refining LLC	6.500	11/01/22	350,000	337,824	339,938
DaVita, Inc.	5.750	08/15/22	500,000	500,000	494,375
Duke Realty Limited Partnership	3.875	10/15/22	500,000	507,519	475,677
Ensco PLC	3.250	03/15/16	600,000	598,797	626,287
EP Energy/EP Finance, Inc.	9.375	05/01/20	500,000	507,683	562,500
Equifax, Inc.	4.450	12/01/14	500,000	504,828	519,475
GATX Corporation	4.750	05/15/15	500,000	500,371	526,060
General Electric Capital Corporation	5.500	01/08/20	500,000	498,637	566,684
Headwaters, Inc.	7.625	04/01/19	305,000	305,124	320,250
Health Management Association	6.125	04/15/16	250,000	255,015	273,125
HealthSouth Corporation	7.750	09/15/22	450,000	450,978	482,625
Hertz Corporation	6.750	04/15/19	220,000	217,248	232,650
International Game Technology	7.500	06/15/19	500,000	499,814	584,491
Jabil Circuit, Inc.	4.700	09/15/22	500,000	499,965	478,750
Johnson Controls, Inc.	5.500	01/15/16	500,000	459,320	546,801

Kraft Foods, Inc.	5.375	02/10/20	500,000	512,101	564,585

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2013
(Unaudited)

Corporate Public Securities (A)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
Lennar Corporation	4.750	11/15/22	$ 375,000	$ 369,424	$ 345,000
Masco Corporation	7.125	03/15/20	350,000	349,998	394,625
Meritor, Inc.	6.750	06/15/21	1,000,000	1,000,000	990,000
Morgan Stanley	5.500	01/26/20	500,000	498,121	553,282
NBC Universal Media LLC	5.150	04/30/20	500,000	499,482	566,982
Neustar Inc.	4.500	01/15/23	375,000	363,289	336,563
Nexeo Solutions LLC	8.375	03/01/18	20,000	20,000	19,900
Niska Gas Storage Partners LLC	8.875	03/15/18	500,000	505,159	517,500
Omnova Solutions, Inc.	7.875	11/01/18	750,000	762,571	789,375
Peabody Energy Corporation	6.000	11/15/18	500,000	500,519	498,750
Perry Ellis International, Inc.	7.875	04/01/19	375,000	371,803	395,625
Precision Drilling Corporation	6.625	11/15/20	250,000	256,911	264,375
Qwest Diagnostic, Inc.	4.750	01/30/20	500,000	499,081	533,198
ServiceMaster Company	7.000	08/15/20	500,000	500,000	472,500
Sprint Nextel Corporation	6.000	12/01/16	500,000	509,571	530,000
Steelcase, Inc.	6.375	02/15/21	500,000	506,939	556,317
Tech Data Corporation	3.750	09/21/17	500,000	506,044	512,234
Thermadyne Holdings Corporation	9.000	12/15/17	250,000	262,723	269,375
Time Warner Cable, Inc.	5.000	02/01/20	500,000	492,928	506,260
Tronox Finance LLC	6.375	08/15/20	375,000	366,126	371,250
Tyson Foods, Inc.	4.500	06/15/22	500,000	515,076	518,961
Unit Corporation	6.625	05/15/21	500,000	494,386	512,500
Verizon Communications Inc.	5.150	09/15/23	1,000,000	996,769	1,071,786
Weatherford International Limited	4.500	04/15/22	500,000	519,706	494,854
Total Bonds				30,778,148	31,844,226

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

Corporate Public Securities (A)	Shares	Cost	Market Value
Common Stock - 0.02%			
Intrepid Potash, Inc. (B)	185	$ 5,920	$ 2,919
Nortek, Inc. (B)	100	1	6,876
Rue21, Inc. (B)	350	6,650	14,116
Total Common Stock		12,571	23,911
Total Corporate Public Securities		$ 30,790,719	$ 31,868,137

Short-Term Securities:	Interest Rate/Yield^	Due Date	Principal Amount	Cost	Market Value
Commercial Paper - 6.59%					
Enbridge Energy Company, Inc.	0.300 %	10/18/13	$ 2,250,000	$ 2,249,681	$ 2,249,681
FMC Corporation	0.270	10/10/13	2,250,000	2,249,848	2,249,848
Hewlett Packard Company	0.429	10/29/13	2,000,000	1,999,331	1,999,331
Pentair Finance SA	0.279	10/22/13	2,292,000	2,291,626	2,291,626
Total Short-Term Securities		—		$ 8,790,486	$ 8,790,486
Total Investments	108.47 %			$ 145,990,894	$ 144,751,808
Other Assets	6.00				8,011,503
Liabilities	(14.47)				(19,317,945)
Total Net Assets	100.00 %				$ 133,445,366

(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, 2013.
(D) Defaulted security; interest not accrued.
(E) Illiquid security. As of September 30, 2013, the values of these securities amounted to $91,475,650 or 68.55% of net assets.
^ Effective yield at purchase
PIK Payment-in-kind

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2013
(Unaudited)

Industry Classification:	Fair Value/ Market Value
AEROSPACE - 3.28%	
A E Company, Inc.	$ 422,962
AAR Corporation	521,250
Alliant Techsystems Inc.	530,000
B E Aerospace, Inc.	273,125
Merex Holding Corporation	600,392
Visioneering, Inc.	1,118,563
Whitcraft Holdings, Inc.	908,630
	4,374,922
AUTOMOBILE - 6.76%	
Accuride Corp	521,250
Avis Budget Car Rental	432,187
CG Holdings Manufacturing Company	1,293,920
DPL Holding Corporation	1,563,320
Ideal Tridon Holdings, Inc.	159,765
J A C Holding Enterprises, Inc.	289,219
Jason Partners Holdings LLC	25,511
Johnson Controls, Inc.	546,801
K & N Parent, Inc.	1,344,068
Lear Corporation	347,813
Meritor, Inc.	990,000
Ontario Drive & Gear Ltd.	992,180
Penske Corporation	509,176
	9,015,210
BEVERAGE, DRUG & FOOD - 7.49%	
1492 Acquisition LLC	1,308,235
B&G Foods, Inc.	420,200
Eatem Holding Company	1,134,767
F F C Holding Corporation	1,133,036
Hospitality Mints Holding Company	1,150,561

	Fair Value/ Market Value
BROADCASTING & ENTERTAINMENT - 0.80%	
NBC Universal Media LLC	$ 566,982
Time Warner Cable, Inc.	506,260
	1,073,242
BUILDINGS & REAL ESTATE - 2.14%	
Duke Realty Limited Partnership	475,677
Lennar Corporation	345,000
Masco Corporation	394,625
Safway Group Holding LLC/Finance Corporation	253,750
Sunrise Windows Holding Company	1,110,147
TruStile Doors, Inc.	272,680
	2,851,879
CHEMICAL, PLASTICS & RUBBER - 2.22%	
Capital Specialty Plastics, Inc.	615,077
Cornerstone Chemical Company	392,813
Nicoat Acquisitions LLC	788,203
Omnova Solutions, Inc.	789,375
Tronox Finance LLC	371,250
	2,956,718
CONSUMER PRODUCTS - 9.77%	
AMS Holding LLC	1,283,412
Baby Jogger Holdings LLC	1,090,842
Bravo Sports Holding Corporation	1,233,123
Clearwater Paper Corporation	450,000
Custom Engineered Wheels, Inc.	487,836
gloProfessional Holdings, Inc.	1,224,825
Handi Quilter Holding Company	634,519
K N B Holdings Corporation	2,346,829
Manhattan Beachwear Holding Company	1,132,789
NXP BV/NXP Funding LLC	731,250

JMH Investors LLC	1,192,951	Perry Ellis International, Inc.	395,625
Kraft Foods, Inc.	564,585	R A J Manufacturing Holdings LLC	415,729
Snacks Parent Corporation	1,016,040	Tranzonic Companies (The)	1,618,226
Spartan Foods Holding Company	1,212,687		13,045,005
Specialty Commodities, Inc.	336,843		
Tyson Foods, Inc.	518,961		
	9,988,866		

See Notes to Consolidated Financial Statements

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

Industry Classification: (Continued)	Fair Value/ Market Value
CONTAINERS, PACKAGING & GLASS - 4.48%	
Flutes, Inc.	$ 696,219
P K C Holding Corporation	2,020,473
P P T Holdings LLC	1,162,692
Paradigm Packaging, Inc.	1,012,468
Rose City Holding Company	642,098
Vitex Packaging Group, Inc.	439,668
	5,973,618
DISTRIBUTION - 5.57%	
ARI Holding Corporation	1,641,011
Blue Wave Products, Inc.	706,243
BP SCI LLC	1,242,001
Duncan Systems, Inc.	591,871
Signature Systems Holding Company	855,694
Stag Parkway Holding Company	1,292,447
WP Supply Holding Corporation	1,098,091
	7,427,358
DIVERSIFIED/CONGLOMERATE, MANUFACTURING - 8.06%	
A H C Holding Company, Inc.	196,943
Advanced Manufacturing Enterprises LLC	1,158,080
Arrow Tru-Line Holdings, Inc.	876,957
C D N T, Inc.	649,419
F G I Equity LLC	775,268
G C Holdings	653,247
Hi-Rel Group LLC	945,191
J.B. Poindexter Co., Inc.	525,000
K P H I Holdings, Inc.	269,490
K P I Holdings, Inc.	171,359
LPC Holding Company	146,673
DIVERSIFIED/CONGLOMERATE, SERVICE - 13.59%	
ADT Corporation	$ 943,950
A S C Group, Inc.	248,561
A W X Holdings Corporation	210,000
Advanced Technologies Holdings	966,198
Anglogold Holdings PLC	536,001
Apex Analytix Holding Corporation	1,355,069
Bank of America Corporation	680,002
C R H America, Inc.	500,756
Church Services Holding Company	531,065
Clough, Harbour and Associates	211,728
Crane Rental Corporation	1,273,874
EPM Holding Company	719,230
ELT Holding Company	996,758
Equifax, Inc.	519,475
FMC Corporation	2,249,848
Hilton Worldwide Holdings, Inc.	751,875
HVAC Holdings, Inc.	1,277,305
Insurance Claims Management, Inc.	304,415
Mail Communications Group, Inc.	286,174
Nexeo Solutions LLC	19,900
Northwest Mailing Services, Inc.	1,685,635
Safety Infrastructure Solutions	945,786
ServiceMaster Company	472,500
Sirius XM Radio Inc.	448,894
	18,134,999
ELECTRONICS - 3.42%	
Connecticut Electric, Inc.	1,571,627
Hewlett Packard Company	1,999,331
Jabil Circuit, Inc.	478,750

MEGTEC Holdings, Inc.	562,141	Tech Data Corporation	512,234
Nortek, Inc.	6,876		4,561,942
O E C Holding Corporation	481,820		
Postle Aluminum Company LLC	1,802,683		
Truck Bodies & Equipment International	1,537,093		
	10,758,240		

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2013
(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value
FINANCIAL SERVICES - 5.99%	
Ally Financial, Inc.	$787,099
Alta Mesa Financial Services	791,250
CIT Group, Inc.	488,750
GATX Corporation	526,060
General Electric Capital Corporation	566,684
LBC Tank Terminals Holding Netherlands B.V.	666,314
Morgan Stanley	553,282
Pentair Finance SA	2,291,626
REVSpring, Inc.	1,326,353
	7,997,418
HEALTHCARE, EDUCATION & CHILDCARE - 5.88%	
American Hospice Management Holding LLC	1,692,830
CHG Alternative Education Holding Company	1,034,159
DaVita, Inc.	494,375
GD Dental Services LLC	82,665
Healthcare Direct Holding Company	700,622
HealthSouth Corporation	482,625
Marshall Physicians Services LLC	596,498
Qwest Diagnostic, Inc.	533,198
SouthernCare Holdings, Inc.	97,959
Strata/WLA Holding Corporation	239,787
Synteract Holdings Corporation	1,792,654
Wheaton Holding Corporation	101,008
	7,848,380
HOME & OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 2.77%	
Connor Sport Court International, Inc.	403,590
Home Décor Holding Company	352,767
Steelcase, Inc.	556,317
Transpac Holding Company	703,988
U-Line Corporation	402,048
U M A Enterprises, Inc.	1,050,350
Wellborn Forest Holding Company	227,813
	3,696,873
LEISURE, AMUSEMENT, ENTERTAINMENT - 0.83%	
Brunswick Corporation	$518,75
International Game Technology	584,49
	1,103,2
MACHINERY - 3.90%	
ABC Industries, Inc.	642,59
Arch Global Precision LLC	1,063,8
E S P Holdco, Inc.	250,74
M V I Holding, Inc.	33,107
Motion Controls Holdings	1,027,3
NetShape Technologies, Inc.	1,470,6
Pacific Consolidated Holdings LLC	42,188
Thermadyne Holdings Corporation	269,37
Welltec A/S	399,37
	5,199,1
MEDICAL DEVICES/BIOTECH - 1.43%	
Health Management Association	273,12
MedSystems Holdings LLC	128,73
MicroGroup, Inc.	225,68
NT Holding Company	1,103,4
Precision Wire Holding Company	185,14
	1,916,0
MINING, STEEL, IRON & NON-PRECIOUS METALS - 1.92%	
Alcoa, Inc.	625,93
Commercial Metals Company	675,00
Coeur d'Alene Mines Corporation	505,00
FMG Resources	257,50
Peabody Energy Corporation	498,75
	2,562,1
NATURAL RESOURCES - 0.64%	
ArcelorMittal	530,00
Headwaters, Inc.	320,25
Intrepid Potash, Inc.	2,919
	853,16

See Notes to Consolidated Financial Statements

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

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
OIL & GAS - 10.60%		TELECOMMUNICATIONS - 2.86%	
Bill Barrett Corporation	$ 483,750	All Current Holding Company	$ 240,806
Calumet Specialty Products Partners L.P.	964,063	CCO Holdings Capital Corporation	462,500
Continental Resources, Inc.	503,125	Centurytel, Inc.	520,000
CVR Refining LLC	339,938	Neustar Inc.	336,563
Enbridge Energy Company, Inc.	2,249,681	Sprint Corporation	510,000
Ensco PLC	626,287	Sprint Nextel Corporation	530,000
EP Energy/EP Finance, Inc.	562,500	Univision Communications	153,200
Forum Energy Technologies	161,000	Verizon Communications Inc.	1,071,786
Hercules Offshore, Inc.	750,000		3,824,855
Hilcorp Energy Company	347,750	TRANSPORTATION - 1.99%	
Linn Energy, LLC	516,875	CHC Helicopter SA	1,065,000
MBWS Ultimate Holdco, Inc.	1,742,744	Hertz Corporation	232,650
MEG Energy Corporation	993,125	MNX Holding Company	1,253,968
Niska Gas Storage Partners LLC	517,500	NABCO, Inc.	101,379
Petroplex Inv Holdings LLC	1,246,236		2,652,997
Precision Drilling Corporation	264,375	WASTE MANAGEMENT / POLLUTION - 1.07%	
RKI Inc.	502,500	Torrent Group Holdings, Inc.	1,435,016
Samson Investment Company	371,000		
Unit Corporation	512,500		
Weatherford International Limited	494,854		
	14,149,803		
		Total Investments - 108.47%	$ 144,751,808
PHARMACEUTICALS - 0.40%			
CorePharma LLC	267,235		
Valeant Pharmaceuticals International	265,000		
	532,235		
RETAIL STORES - 0.01%			
Rue21, Inc.	14,116		
TECHNOLOGY - 0.60%			
First Data Corporation	263,125		
Smart Source Holdings LLC	541,139		
	804,264		

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. History

Babson Capital Participation Investors (the "Trust") was organized as a Massachusetts business trust under the laws of the Commonwealth of Massachusetts pursuant to a Declaration of Trust dated April 7, 1988.

The Trust is a diversified closed-end management investment company. Babson Capital Management LLC ("Babson Capital"), a wholly-owned indirect subsidiary of Massachusetts Mutual Life Insurance Company ("MassMutual"), acts as its investment adviser. The Trust's investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust's principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. 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 and repay capital. In addition, the Trust may invest in high quality, readily marketable securities.

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

2. Significant Accounting Policies

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

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-08, Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement

A. Fair Value Measurements:

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

Determination of Fair Value

The determination of the fair value of the Trust's investments is the responsibility of the Trust's Board of Trustees (the "Trustees"). The Trustees have adopted procedures for the valuation of the Trust's securities and has delegated responsibility for applying those procedures to Babson Capital. Babson Capital has established a Pricing Committee which is responsible for setting the guidelines used in following the procedures adopted by the Trustees ensuring that those guidelines are being followed. Babson Capital considers all relevant factors that are reasonably available, through either public information or information available to Babson Capital, when determining the fair value of a security. The Trustees meet at least once each quarter to approve the value of the Trust's portfolio securities as of the close of business on the last business day of the preceding quarter. This valuation requires the approval of a majority of the Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital. In approving valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the procedures and guidelines referred to above, which include the relevant factors referred to below. Babson Capital has agreed to provide such reports to the Trust at least quarterly. The consolidated financial statements include private placement restricted securities valued at $91,475,650 (68.55% of net assets) as of September 30, 2013 whose values have been estimated by the Trustees based on the process described above in the absence of readily ascertainable market values. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

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

and Disclosure Requirements (“ASU 2013-08”), which updates the criteria used in defining an investment company under U.S. GAAP and also sets forth certain measurement and disclosure requirements. The amendments in ASU 2013-08 are effective for fiscal periods (including interim periods) beginning after December 15, 2013. While management is still assessing the impact of this update on disclosures, the impact of this update is not expected to be material to the financial statements.

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

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At September 30, 2013, 100% of the carrying value of these investments was from external pricing services. In the event that the primary pricing service does not provide a price, the Trust utilizes the pricing provided by a secondary pricing service.

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

Public debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust's pricing services use multiple valuation techniques to determine fair value. In instances where significant market activity exists, the pricing services may utilize a market based approach through which quotes from market makers are used to determine fair value. In instances where significant market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal underlying prepayments, collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

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

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

Corporate Restricted Securities – Common Stock, Preferred Stock and Partnerships & LLC's
The fair value of equity securities is determined using an enterprise waterfall methodology. Under this methodology, the enterprise value of the company is first estimated and that value is then allocated to the company's outstanding debt and equity securities based on the documented priority of each class of securities in the capital structure. Generally, the waterfall proceeds from senior debt tranches of the capital structure to senior then junior subordinated debt, followed by each class of preferred stock and finally the common stock.

To estimate a company's enterprise value, the company's trailing twelve months earnings before interest, taxes, depreciation and amortization ("EBITDA") is multiplied by a valuation multiple. A discount for lack of marketability is applied to the end result.

Both the company's EBITDA and valuation multiple as well as the discount are considered significant unobservable inputs.

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

Quantitative Information about Level 3 Fair Value Measurements
The following table represents quantitative information about Level 3 fair value measurements as of September 30, 2013.

Corporate Restricted Securities – Corporate Bonds	Valuation	Unobservable	Weighted

The fair value of certain notes is determined using an internal model that discounts the anticipated cash flows of those notes using a specific discount rate. Changes to that discount rate are driven by changes in general interest rates, probabilities of default and credit adjustments. The discount rate used within the models to discount the future anticipated cash flows is considered a significant unobservable input. Significant increases/(decreases) in the discount rate would result in a significant (decrease)/increase to the notes' fair value.

The fair value of certain distressed notes is based on an enterprise waterfall methodology which is discussed in the equity security valuation section below.

	Technique	Inputs	Range	Average
Corporate Bonds	Discounted Cash Flows	Discount Rate	6.9% to 16.9%	11.8%
Equity Securities	Market Approach	Valuation Multiple	3.5x to 22.9x	7.0x
		Discount for lack of marketability	0% to 25%	5.5%
		EBITDA	$0.5 million to $101.7 million	$18.2 million

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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

The following is a summary of the inputs used to value the Trust's net assets as of September 30, 2013:

Assets:	Total	Level 1	Level 2	Level 3
Restricted Securities				
Corporate Bonds	$ 78,585,465	$ —	$ 12,617,535	$ 65,967,630
Common Stock - U.S.	9,872,663	—	—	9,872,663
Preferred Stock	6,572,212	—	—	6,572,212
Partnerships and LLCs	9,063,145	—	—	9,063,145
Public Securities				
Corporate Bonds	31,844,226	—	31,844,226	—
Common Stock - U.S.	23,911	23,911	—	—
Short-term Securities	8,790,486	—	8,790,486	—
Total	$ 144,751,808	$ 23,911	$ 53,252,247	$ 91,475,650

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

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

Assets:	Beginning balance at 12/31/2012	Included in earnings	Purchases	Sales	Prepayments	Transfers in and/or out of Level 3	Ending balance at 09/30/2013
Restricted Securities							
Corporate Bonds	$81,060,756	$(1,398,381)	$10,368,651	$(4,106,957)	$(19,956,439)	$—	$65,967,630
Common Stock - U.S.	7,793,109	2,557,945	455,756	(934,147)	—	—	9,872,663
Preferred Stock	5,786,187	514,984	457,765	(186,724)	—	—	6,572,212
Partnerships and LLCs	6,890,276	1,826,287	595,428	(248,846)	—	—	9,063,145
	$101,530,328	$3,500,835	$11,877,600	$(5,476,674)	$(19,956,439)	$—	$91,475,650

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

Income, Gains and Losses included in Net Increase in Net Assets resulting from Operations for the period are presented in the following accounts on the Statement of Operations for Level 3 assets:

	Net Increase in Net Assets Resulting from Operations	Change in Unrealized Gains & (Losses) in Net Assets from assets still held

Interest (Amortization)	$	425,189	—
Net realized gain on investments before taxes	$	(2,305,606)	—
Net change in unrealized depreciation of investments before taxes.	$	5,381,252	3,260,234

Babson Capital Participation Investors
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B. Accounting for Investments:

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

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

C. Use of Estimates:

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

D. Federal Income Taxes:

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

The Trust is taxed as a regulated investment company and is therefore limited as to the amount of non-qualified income that it may receive as the result of operating a trade or business, e.g. the Trust's pro rata share of income allocable to the Trust by a partnership

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax basis. As of September 30, 2013, the PI Subsidiary Trust has a deferred tax liability of $655,990.

Beginning with the 2009 annual financial statements, the Trust recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Trust measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Trust has evaluated and determined that the tax positions did not have a material effect on the Trust's financial position and results of operations for the nine months ended September 30, 2013.

E. Distributions to Shareholders:

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

3. Investment Advisory and Administrative Services Contract

A. Services:

Under an Investment Advisory and Administrative Services Contract (the "Contract") with the Trust, Babson Capital has agreed to use its best efforts to present to the Trust a continuing and suitable investment program consistent with the investment objectives and policies of the Trust. Babson Capital represents the Trust in any negotiations with issuers, investment banking firms, securities brokers or dealers and other institutions or investors relating to the Trust's investments. Under the Contract, Babson Capital also provides administration of

operating company. The Trust's violation of this limitation could result in the loss of its status as a regulated investment company, thereby subjecting all of its net income and capital gains to corporate taxes prior to distribution to its shareholders. The Trust, from time-to-time, identifies investment opportunities in the securities of entities that could cause such trade or business income to be allocable to the Trust. The PI Subsidiary Trust (described in Footnote 1, above) was formed in order to allow investment in such securities without adversely affecting the Trust's status as a regulated investment company.

The PI Subsidiary Trust is not taxed as a regulated investment company. Accordingly, prior to the Trust receiving any distributions from the PI Subsidiary Trust, all of the PI Subsidiary Trust's taxable income and realized gains, including non-qualified income and realized gains, is subject to taxation at prevailing corporate tax rates. As of September 30, 2013, the PI Subsidiary Trust has incurred income tax expense of $9,701.

the day-to-day operations of the Trust and provides the Trust with office space and office equipment, accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

B. Fee:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. Senior Indebtedness

MassMutual holds the Trust's $15,000,000 Senior Fixed Rate Convertible Note (the "Note") issued by the Trust on December 13, 2011. The Note is due December 13, 2023 and accrues interest at 4.09% per annum. MassMutual, at its option, can convert the principal amount of the Note into common shares. The dollar amount of principal would be converted into an equivalent dollar amount of common shares based upon the average price of the common shares for ten business days prior to the notice of conversion. For the nine months ended September 30, 2013, the Trust incurred total interest expense on the Note of $460,125.

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

5. Purchases and Sales of Investments

	For the nine months ended 09/30/13	
	Cost of Investments Acquired	Proceeds from Sales or Maturities
Corporate restricted securities	$ 20,299,759	$ 27,314,604

6. Quarterly Results of Investment Operations (Unaudited)

	March 31, 2013 Amount	Per Share
Investment income	$ 3,325,384	
Net investment income	2,696,999	$ 0.26
Net realized and unrealized gain on investments (net of taxes)	2,350,899	0.23

	June 30, 2013 Amount	Per Share
Investment income	$ 3,234,525	
Net investment income	2,607,163	$ 0.26
Net realized and unrealized loss on investments (net of taxes)	(1,425,028)	(0.14)

	September 30, 2013 Amount	Per Share
Investment income	$ 2,984,268	
Net investment income	2,343,077	$ 0.23
Net realized and unrealized gain on investments (net of taxes)	1,888,448	0.18

Corporate public securities	5,118,897	1,210,063

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of September 30, 2013. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of September 30, 2013 is $1,239,086 and consists of $15,342,990 appreciation and $16,582,076 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of $655,990 on net unrealized gains on the PI Subsidiary Trust.

Babson Capital Participation Investors

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

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Babson Capital Participation Investors

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Vice President

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DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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

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

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

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

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

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

Treasurer

Melissa M. LaGrant
Chief Compliance Officer

Babson Capital
Participation Investors

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