

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-30D

November 25, 2014

Babson Capital  
Participation Investors

Report for the  
Nine Months Ended September 30, 2014

**Adviser**

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

**Transfer Agent & Registrar**

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

**Independent Registered Public Accounting Firm**

KPMG LLP  
Boston, Massachusetts 02110

**Internet Website**

[www.babsoncapital.com/mpv](http://www.babsoncapital.com/mpv)

**Counsel to the Trust**

Ropes & Gray LLP  
Boston, Massachusetts 02110

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

**Custodian**

State Street Bank and Trust Company  
Boston, Massachusetts 02116

**Investment Objective and Policy**

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

The Trust's investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust's principal investments are privately placed, below-investment grade (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

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.

**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

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.

available (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust's website: <http://www.babsoncapital.com/mpv>; and (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust's website: <http://www.babsoncapital.com/mpv>; and (2) on the SEC's website at <http://www.sec.gov>.

Babson Capital Participation Investors

TO OUR SHAREHOLDERS

October 31, 2014

We are pleased to present the September 30, 2014 Quarterly Report of Babson Capital Participation Investors (the "Trust").

The Board of Trustees declared a quarterly dividend of \$0.27 per share, payable on November 14, 2014 to shareholders of record on November 3, 2014. The Trust paid a \$0.27 per share dividend for the preceding quarter. The Trust earned \$0.29 per share of net investment income, including \$0.08 per share of non-recurring income, for the third quarter of 2014, compared to \$0.24 per share, including \$0.02 per share of non-recurring income, in the previous quarter.

During the third quarter, the net assets of the Trust increased to \$140,207,012 or \$13.63 per share compared to \$139,691,726 or \$13.60 per share on June 30, 2014. This translates into a 2.2% 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 13.3%, 12.8%, 13.7%, and 12.6% for the 1, 3, 5, and 10-year periods, respectively, based on the change in the Trust's net assets assuming the reinvestment of all dividends.

The Trust's share price decreased 0.6% during the quarter, from \$13.68 per share as of June 30, 2014 to \$13.60 per share as of September 30, 2014. The Trust's market price of \$13.60 per share equates to a 0.2% discount below the September 30, 2014 net asset value per share of \$13.63. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 12.4%, 12.8% and 9.9%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, decreased 7.4% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, decreased 1.9% for the quarter.

The Trust closed three new private placement investments, as well as two "add-on" investments in existing portfolio companies, during the third quarter. The three new investments were in Avantech Testing Services LLC, MES Partners, Inc. and Polytex Holdings LLC, while the two add-on investments were in ARI Holding Corporation and Church Services Holding Company. 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 \$3,764,000.

We are pleased with the level of new investment activity in the third quarter. Middle market merger and acquisition activity has remained robust so far in the fourth quarter, and we are optimistic about the level of new investment closings for the Trust through year end. The dark cloud on the horizon though, continues to be the high purchase prices and leverage levels that are common in the market today. Purchase price multiples and leverage levels are at or above the peak levels we last saw in 2007. Though we are making new investments in this market, we are doing so cautiously and with discipline, consistent with our longstanding investment philosophy of seeking to take prudent levels of risk and getting paid appropriately for the risk taken. We are not willing to provide financial leverage at levels that we believe are imprudent. This approach has served us well over the long term and through all kinds of market cycles.

The condition of the Trust's existing portfolio remained solid through the third quarter. Sales and earnings for the Trust's portfolio of companies as a whole continued their upward momentum. We had significantly more credit upgrades than downgrades during the quarter. The number of companies on our watch list and in default continues to be at or near the lowest level we have seen over the last five years. We successfully exited eight investments and benefited from dividends associated with the recapitalization of three companies during the third quarter. We realized

significant gains from these transactions. We continue to have a large backlog of portfolio companies that are in the process of being sold, with a number of these expected to close this year. We only had two portfolio companies prepay their debt instruments held by the Trust during the quarter. This low level of prepayment activity is welcome after the unprecedented levels of prepayments we experienced in 2013, when 32 of the Trust's portfolio companies fully or partially prepaid their debt obligations to the Trust.

(Continued)

---

1

---

The Trust was able to maintain its \$0.27 per share quarterly dividend for the third quarter even though net investment income per share, excluding non-recurring income, was once again below the dividend rate. Net investment income per share from recurring sources has been below the dividend rate for every quarter since the second quarter of 2012. As we have discussed in prior reports, net investment income is down due principally to the considerable reduction in the number of private debt securities in the portfolio resulting from the high level of prepayment and exit activity that has occurred in recent quarters. We have been able to maintain the \$0.27 per share quarterly dividend with current income, non-recurring income and earnings carried forward from prior quarters. Over time, however, the Trust's dividend-paying ability tends to be correlated with its recurring earnings capacity. Absent non-recurring income and earnings carried forward from prior quarters, earnings available for the quarterly dividend would have been approximately \$0.21 per share for the third quarter. This quarter, the Trust earned an unusually high \$0.08 per share of non-recurring income, mostly due to dividend distributions from the recapitalization of a few portfolio companies. This income has replenished the Trust's earnings carry-forwards somewhat and should be available to supplement recurring income for the fourth quarter of 2014. Unless market conditions change dramatically though, it is still unlikely that we will be able to rebuild the portfolio back to its former size in the near term. As a result, it is likely that in 2015 we will have to reduce the dividend from the current \$0.27 per share quarterly rate. We and the Board of Trustees will continue to evaluate the current and future earnings capacity of the Trust and formulate a dividend strategy that is consistent with that earnings level.

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, 2014

(Unaudited)

## Assets:

## Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$84,008,596)	\$83,562,794
Corporate restricted securities at market value (Cost - \$18,012,165)	18,078,369
Corporate public securities at market value (Cost - \$41,975,812)	43,101,237
Short-term securities at amortized cost	5,799,712
Total investments (Cost -\$149,796,285)	150,542,112
Cash	4,662,639
Interest receivable	1,521,185
Other assets	35,107
Total assets	156,761,043

## Liabilities:

Note payable	15,000,000
Payable for investments purchased	480,000
Investment advisory fee payable	315,466
Tax payable	292,512
Deferred tax liability	153,395
Interest payable	27,267
Accrued expenses	285,391
Total liabilities	16,554,031
Total net assets	\$ 140,207,012

## Net Assets:

Common shares, par value \$.01 per share	\$ 102,874
Additional paid-in capital	96,943,891
Retained net realized gain on investments, prior years	37,186,148
Undistributed net investment income	2,677,311
Accumulated net realized gain on investments	2,704,356
Net unrealized appreciation of investments	592,432
Total net assets	\$ 140,207,012
Common shares issued and outstanding (14,787,750 authorized)	10,287,396
Net asset value per share	\$ 13.63

See Notes to Consolidated Financial Statements





CONSOLIDATED STATEMENT OF OPERATIONS

For the nine months ended September 30, 2014

(Unaudited)

Investment Income:	
Interest	\$8,966,338
Dividends	963,456
Other	180,731
Total investment income	10,110,525
Expenses:	
Investment advisory fees	928,729
Interest	460,125
Trustees' fees and expenses	222,000
Professional fees	214,825
Reports to shareholders	66,000
Custodian fees	22,000
Other	226,660
Total expenses	2,140,339
Investment income - net	7,970,186
Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	3,847,415
Income tax expense	(85,847 )
Net realized gain on investments after taxes	3,761,568
Net change in unrealized appreciation of investments before taxes	1,519,250
Net change in deferred income tax expense	517,165
Net change in unrealized appreciation of investments after taxes	2,036,415
Net gain on investments	5,797,983
Net increase in net assets resulting from operations	\$13,768,169

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2014

(Unaudited)

Net decrease in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$2,709,748
Purchases of portfolio securities	(29,487,001)
Proceeds from disposition of portfolio securities	22,477,991
Interest, dividends and other income received	8,803,514
Interest expense paid	(460,125 )
Operating expenses paid	(1,612,981 )
Income taxes paid	(127,339 )
Net cash provided by operating activities	2,303,807

Cash flows from financing activities:

Cash dividends paid from net investment income	(8,309,859 )
Receipts for shares issued on reinvestment of dividends	567,369
Net cash used for financing activities	(7,742,490 )

Net decrease in cash	(5,438,683 )
Cash - beginning of year	10,101,322
Cash - end of period	\$4,662,639

Reconciliation of net increase in net assets to net cash provided by operating activities:

Net increase in net assets resulting from operations	\$13,768,169
Increase in investments	(11,000,557)
Increase in interest receivable	(264,421 )
Increase in other assets	(16,984 )
Decrease in deferred tax liability	(517,165 )
Increase in payable for investments purchased	309,024
Increase in investment advisory fee payable	19,781
Decrease in tax payable	(41,492 )
Increase in accrued expenses	47,452
Total adjustments to net assets from operations	(11,464,362)
Net cash provided by operating activities	\$2,303,807

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the nine months ended 09/30/2014 (Unaudited)	For the year ended 12/31/2013
Increase in net assets:		
Operations:		
Investment income - net	\$ 7,970,186	\$ 10,228,050
Net realized gain on investments after taxes	3,761,568	(1,116,143 )
Net change in unrealized appreciation of investments after taxes	2,036,415	4,650,973
Net increase in net assets resulting from operations	13,768,169	13,762,880
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2014 - 43,229; 2013 - 60,918)	567,369	817,760
Dividends to shareholders from:		
Net investment income (2014 - \$0.54 per share; 2013 - \$1.08 per share)	(5,543,934 )	(11,039,357 )
Total increase in net assets	8,791,604	3,541,283
Net assets, beginning of year	131,415,408	127,874,125
Net assets, end of period/year (including undistributed net investment income of \$2,677,311 and \$251,059, respectively)	\$ 140,207,012	\$ 131,415,408

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 09/30/2014 (Unaudited)	For the years ended December 31,					
		2013	2012	2011	2010	2009	
Net asset value:							
Beginning of year	\$ 12.83	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	
Net investment income (a)	0.78	1.00	1.08	1.14	1.02	0.94	
Net realized and unrealized gain (loss) on investments	0.56	0.35	0.64	0.08	0.95	(0.13 )	
Total from investment operations	1.34	1.35	1.72	1.22	1.97	0.81	
Dividends from net investment income to common shareholders	(0.54 )	(1.08 )	(1.04 )	(1.23 )	(1.00 )	(1.00 )	
Dividends from realized gain on investments to common shareholders	-	-	(0.04 )	(0.00 )	(b) -	-	
Increase from dividends reinvested	0.00	(0.00 )	(b) 0.02	0.02	0.01	(0.00 )	(b)
Total dividends	(0.54 )	(1.08 )	(1.06 )	(1.21 )	(0.99 )	(1.00 )	
Net asset value: End of period/year	\$ 13.63	\$ 12.83	\$ 12.56	\$ 11.90	\$ 11.89	\$ 10.91	
Per share market value:							
End of period/year	\$ 13.60	\$ 12.88	\$ 13.91	\$ 15.85	\$ 13.88	\$ 12.20	
Total investment return							
Net asset value (c)	10.61 %	10.97 %	15.89 %	10.56 %	18.71 %	7.60 %	
Market value (c)	10.03 %	0.47 %	(4.54 %)	24.16 %	22.94 %	40.86 %	
Net assets (in millions):							
End of period/year	\$ 140.21	\$ 131.42	\$ 127.87	\$ 120.32	\$ 119.54	\$ 108.93	
Ratio of total expenses to average net assets	2.18 %	(e) 2.15 %	2.83 %	2.18 %	2.53 %	2.04 %	
Ratio of operating expenses to average net assets	1.65 %	(e) 1.51 %	1.51 %	1.42 %	1.46 %	1.41 %	
Ratio of interest expense to average net assets	0.45 %	(e) 0.47 %	0.49 %	0.56 %	0.61 %	0.63 %	

Ratio of income tax expense to average net assets (d)	0.08	%(e)	0.17	%	0.83	%	0.20	%	0.46	%	0.00	%
Ratio of net investment income to average net assets	7.84	%(e)	7.77	%	8.82	%	9.33	%	8.96	%	8.55	%
Portfolio turnover	16	%	30	%	34	%	21	%	27	%	23	%

- (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	\$ 15	\$ 12	\$ 12
Asset coverage per \$1,000 of indebtedness	\$ 10,347	\$ 9,761	\$ 9,525	\$ 9,021	\$ 10,962	\$ 10,077

See Notes to Consolidated Financial Statements

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2014

(Unaudited)

Corporate Restricted Securities - 72.49%: (A)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Private Placement Investments - 59.60%				
1492 Acquisition LLC				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated Note due 2019	\$ 674,119	10/17/12	\$ 663,287	\$ 656,110
Limited Liability Company Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	23,351
Limited Liability Company Unit Class A Preferred (B)	102 uts.	10/17/12	102,270	114,802
			776,921	794,263
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	96,028	268,077
A S C Group, Inc.				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
14% Senior Subordinated Note due 2020	\$ 1,038,842	12/20/13	1,019,796	1,059,619
Limited Liability Company Unit Class A (B)	3,094 uts.	*	153,704	252,387
Limited Liability Company Unit Class B (B)	1,479 uts.	10/09/09	52,999	120,646
* 10/09/09 and 12/20/13.			1,226,499	1,432,652
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 2015 (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.				

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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

13% Senior Subordinated Note due 2019	\$	500,000	08/01/12	458,357	505,000
		125,000			
Preferred Stock Series A (B) Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)		shs.	08/01/12	125,000	205,601
		22,414 shs.	08/01/12	42,446	34,743
				625,803	745,344

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	-	-
-------------	--	---------	----------	---	---

---

8

---

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS(CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Advanced Manufacturing Enterprises LLC</b>				
A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
14% Senior Subordinated Note due 2018	\$ 1,134,615	12/07/12	\$ 1,121,321	\$ 1,128,253
Limited Liability Company Unit (B)	1,431 uts.	*	143,077	135,637
* 12/07/12 and 07/11/13.			1,264,398	1,263,890
<b>Advanced Technologies Holdings</b>				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	332 shs.	12/27/07	164,016	569,025
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	47,709
			185,616	616,734
<b>All Current Holding Company</b>				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
Common Stock (B)	713 shs.	09/26/08	71,303	143,369
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	101,947
			117,887	245,316
<b>American Hospice Management Holding LLC</b>				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2014	\$ 1,237,502	*	1,237,097	1,175,627
Preferred Class A Unit (B)	1,706 uts.	**	170,600	-
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	99,345
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.			1,488,487	1,274,972
** 01/22/04 and 09/16/06.				

AMS Holding LLC



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.

Limited Liability Company Unit

Class A Preferred (B)	114 uts.	10/04/12	113,636	259,206
-----------------------	----------	----------	---------	---------

Arch Global Precision LLC

A leading manufacturer of high tolerance precision components and consumable tools.

14.75% Senior Subordinated Note

due 2018	\$ 809,261	12/21/11	795,148	825,447
----------	------------	----------	---------	---------

Limited Liability Company Unit

Class B (B)	26 uts.	12/21/11	28,418	82,769
-------------	---------	----------	--------	--------

Limited Liability Company Unit

Class C (B)	224 uts.	12/21/11	221,582	666,604
			1,045,148	1,574,820

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>ARI Holding Corporation</b>				
A leading national supplier of products used primarily by specialty contractors.				
11.5% Senior Subordinated Note due 2020				
	\$ 1,693,960	*	\$ 1,667,715	\$ 1,689,953
Limited Partnership Interest	524 uts.	08/01/14	523,950	373,869
* 05/21/13 and 08/01/14.				
			2,191,665	2,063,822
<b>Arrow Tru-Line Holdings, Inc.</b>				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
12% Senior Subordinated Note due 2016				
	\$ 157,795	10/16/09	140,234	157,795
Preferred Stock (B)	33 shs.	10/16/09	33,224	118,313
Common Stock (B)	263 shs.	05/18/05	263,298	19,947
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share				
(B)	69 shs.	05/18/05	59,362	5,230
			496,118	301,285
<b>Avantech Testing Services LLC</b>				
A manufacturer of custom Non-Destructive Testing (“NDT”) systems and provider of NDT and inspections services primarily to the oil country tubular goods market.				
15% Senior Subordinated Note due 2020				
	\$ 495,937	07/31/14	486,278	495,099
Limited Liability Company Unit	36,964 uts.	07/31/14	369,643	351,161
			855,921	846,260
<b>Baby Jogger Holdings LLC</b>				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019				
	\$ 942,213	04/20/12	928,315	951,635
Common Stock (B)	754 shs.	04/20/12	75,376	132,805
			1,003,691	1,084,440
<b>Blue Wave Products, Inc.</b>				
A distributor of pool supplies.				
10% Senior Secured Term Note due 2018				
	\$ 317,730	10/12/12	313,067	317,730
13% Senior Subordinated Note due 2019				
	\$ 324,051	10/12/12	305,018	326,573

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Common Stock (B)	51,064 shs.	10/12/12	51,064	85,982
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	20,216 shs.	10/12/12	20,216 689,365	34,040 764,325
<b>BP SCI LLC</b>				
A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.				
14% Senior Subordinated Note due 2018	\$ 1,083,231	10/17/12	1,067,363	1,094,064
Limited Liability Company Unit Class A (B)	417 uts.	10/17/12	41,667	135,136
Limited Liability Company Unit Class B (B)	167 uts.	10/17/12	166,666 1,275,696	204,384 1,433,584

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Bravo Sports Holding Corporation</b>				
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 2015				
	\$ 1,207,902	06/30/06	\$ 1,205,503	\$ 1,181,543
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	110,914
Common Stock (B)	1 sh.	06/30/06	152	-
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	164 shs.	06/30/06	48,760	38,980
			1,396,361	1,331,437
<b>C D N T, Inc.</b>				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
12.5% Senior Subordinated Note due 2015				
	\$ 429,070	08/07/08	421,725	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	98,784
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965	77,673
			496,550	605,527
<b>Capital Specialty Plastics, Inc.</b>				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	787,507
*12/30/97, 05/29/99 and 02/28/01.				
<b>CG Holdings Manufacturing Company</b>				
A coating provider serving the automotive, agricultural, heavy truck and other end markets.				
13% Senior Subordinated Note due 2019				
	\$ 1,412,605	*	1,340,747	1,443,693
Preferred Stock (B)	1,350 shs.	*	134,972	140,472

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Preferred Stock (B)	489 shs.	*	48,721	50,913
Common Stock (B)	140 shs.	*	14,864	-
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	58 shs.	05/09/13	5,430	-
*05/09/13 and 11/01/13.			1,544,734	1,635,078

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	\$ 753,647	01/19/11	728,089	761,184
14% Senior Subordinated Note due 2019	\$ 195,870	08/03/12	192,916	197,828
Common Stock (B)	375 shs.	01/19/11	37,500	57,107
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250	44,889
			987,755	1,061,008

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(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 the Houston, Dallas, and Austin markets.				
14.5% Senior Subordinated Note due 2018				
	\$ 420,549	03/26/12	\$ 411,172	\$ 420,663
10% Senior Subordinated Note due 2015				
	\$ 6,025	09/15/14	6,025	6,027
Common Stock (B)				
	1,327 shs.	*	132,700	66,862
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)				
	57 shs.	03/26/12	5,740	2,872
* 03/26/12, 05/25/12 and 06/19/12.				
			555,637	496,424
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	146,594	211,819
Connecticut Electric, Inc.				
A supplier and distributor of electrical products sold into the retail and wholesale markets.				
Limited Liability Company Unit Class A (B)				
	82,613 uts.	01/12/07	82,613	59,984
Limited Liability Company Unit Class C (B)				
	59,756 uts.	01/12/07	59,756	46,496
Limited Liability Company Unit Class D (B)				
	671,525 uts.	05/03/10	-	749,628
Limited Liability Company Unit Class E (B)				
	1,102 uts.	05/03/10	-	-
			142,369	856,108
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	302,691
Preferred Stock Series C (B)				
	3,748 shs.	07/05/07	125,207	980,238

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Common Stock (B)	380 shs.	07/05/07	4	174
Limited Partnership Interest (B)	6.88% int.	*	103,135	-
*08/12/04 and 01/14/05.			599,142	1,283,103
 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	232,303
 Crane Rental Corporation				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015				
	\$ 1,032,750	08/21/08	1,009,377	1,032,750
Common Stock (B)				
	135,000 shs.	08/21/08	135,000	70,263
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)				
	72,037 shs.	08/21/08	103,143	37,493
			1,247,520	1,140,506

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>CTM Holding, Inc.</b>				
A leading owner and operator of coin-operated children's rides, penny presses and candy kiosks in the U.S.				
15% Senior Subordinated Note due 2019	\$ 1,212,537	11/22/13	\$ 1,191,121	\$ 1,242,637
Common Stock (B)	31,044 shs.	11/22/13	443,182	372,508
			1,634,303	1,615,145
<b>Custom Engineered Wheels, Inc.</b>				
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.	10/26/09	156,468	228,842
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	167,196
Common Stock (B)	38 shs.	10/26/09	38,244	25,120
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735	18,354
			324,821	439,512
<b>DPL Holding Corporation</b>				
A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.				
14% Senior Subordinated Note due 2019	\$ 1,342,333	05/04/12	1,322,822	1,334,277
Preferred Stock (B)	25 shs.	05/04/12	252,434	288,094
Common Stock (B)	25 shs.	05/04/12	28,048	71,226
			1,603,304	1,693,597
<b>E S P Holdco, Inc.</b>				
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	247,931
<b>Eatem Holding Company</b>				
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	878,917	959,500
Common Stock (B)	50 shs.	02/01/10	50,000	74,031



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Warrant, exercisable until 2018, to  
purchase

common stock at \$.01 per share (B)	119 shs.	02/01/10	107,100	176,520
			1,036,017	1,210,051

ELT Holding Company

A provider of web-based ethics and compliance training solutions for companies in the  
United States.

Common Stock (B)	41 shs.	03/01/12	90,909	216,563
------------------	---------	----------	--------	---------

---

13

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>EPM Holding Company</b>				
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	\$ 592,713	07/26/13	\$ 582,748	\$ 604,567
Common Stock (B)	1,535 shs.	07/26/13	153,474	99,755
			736,222	704,322
<b>ERG Holding Company LLC</b>				
A provider of inpatient and outpatient clinical trial services to pharmaceutical companies and contract research organizations.				
13.5% Senior Subordinated				
Note due 2019	\$ 937,235	04/04/14	919,777	943,673
Common Stock (B)	31 shs.	04/04/14	77,533	77,525
			997,310	1,021,198
<b>F F C Holding Corporation</b>				
A leading U.S. manufacturer of private label frozen novelty and ice cream products.				
Limited Liability Company				
Unit Preferred (B)	171 uts.	09/27/10	58,345	207,629
Limited Liability Company				
Unit (B)	171 uts.	09/27/10	17,073	29,308
			75,418	236,937
<b>F G I Equity LLC</b>				
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.				
	80,559			
Limited Liability Company Unit (B)	uts.	04/15/14	-	80,559
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	109,214
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	13,692
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	12,438
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	23,221
			105,046	239,124
<b>G C Holdings</b>				
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	198 shs.	10/19/10	46,958	110,776

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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

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	38,719
Limited Liability Company Unit Preferred (B)	76 uts.	10/05/12	75,920 76,687	84,330 123,049

---

14

---

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>GenNx Novel Holding, Inc.</b>				
A manufacturer and distributor of nutraceutical ingredients.				
13% Senior Subordinated Note due 2020	\$ 1,574,145	03/27/14	\$ 1,544,635	\$ 1,582,730
Common Stock (B)	155 shs.	03/27/14	155,000	138,817
			1,699,635	1,721,547
<b>gloProfessional Holdings, Inc.</b>				
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	\$ 1,166,467	03/27/13	1,147,861	1,170,317
Common Stock (B)	1,181 shs.	03/27/13	118,110	151,188
			1,265,971	1,321,505
<b>Golden County Foods Holding, Inc.</b>				
A manufacturer of frozen appetizers and snacks.				
14% Senior Subordinated Note due 2019 (D)	\$ 38,950	11/13/13	231,183	-
Preferred Stock (B)	151,643 shs.	11/13/13	77,643	-
Preferred Stock Series F (B)	77,900 shs.	11/13/13	924,731	-
			1,233,557	-
<b>GTI Holding Company</b>				
A designer, developer, and marketer of precision specialty hand tools and handheld test instruments.				
12% Senior Subordinated Note due 2020	\$ 727,865	02/05/14	680,264	731,286
Common Stock (B)	846 shs.	02/05/14	84,636	73,172
Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B)	397 shs.	02/05/14	36,816	34,337
			801,716	838,795
<b>Handi Quilter Holding Company</b>				
A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.				
Common Stock (B)	38 shs.	11/14/11	38,461	131,232
	28 shs.	11/14/11	25,596	93,971

Warrant, exercisable until  
2021, to purchase  
common stock at \$.01 per  
share (B)

64,057 225,203

Hartland Controls Holding  
Corporation

A manufacturer and distributor of electronic and  
electromechanical components.

14% Senior Subordinated

Note due 2019	\$ 1,089,948	02/14/14	1,069,856	1,122,497
Common Stock (B)	821 shs.	02/14/14	822	63,584
Preferred Stock Series A (B)	2,547 shs.	02/14/14	254,734	264,304
			1,325,412	1,450,385

---

15

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Healthcare Direct Holding Company</b>				
A direct-to-customer marketer of discount dental plans.				
14% Senior Subordinated Note due 2019 (D)	\$ 735,452	03/09/12	\$ 723,238	\$ 723,327
16% Senior Subordinated PIK Note due 2019	\$ 46,370	03/31/14	46,370	45,564
Common Stock (B)	517 shs.	03/09/12	51,724 821,332	58,902 827,793
<b>HHI Group, LLC</b>				
A developer, marketer, and distributor of hobby-grade radio control products.				
14% Senior Subordinated Note due 2020	\$ 1,545,035	01/17/14	1,516,945	1,552,484
Limited Liability Company Unit (B)	102 uts.	01/17/14	101,563 1,618,508	84,037 1,636,521
<b>Hi-Rel Group LLC</b>				
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	667,202	698,815
Limited Liability Company Unit (B)	234 uts.	04/15/13	234,375	96,328
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37,177 shs.	04/15/13	32,344 933,921	14,551 809,694
<b>HOP Entertainment LLC</b>				
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.

12% Senior Subordinated Note due 2016	\$ 1,098,837	08/19/08	1,069,741	1,092,999
Common Stock (B)	251 shs.	08/19/08	251,163	85,737
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	60,233	22,161
			1,381,137	1,200,897

HVAC Holdings, Inc.

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

14% Senior Subordinated Note due 2019	\$ 1,182,884	09/27/12	1,164,576	1,189,202
Preferred Stock Series A (B)	1,127 shs.	09/27/12	112,726	139,257
Common Stock (B)	910 shs.	09/27/12	910	2,147
			1,278,212	1,330,606

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 197,968
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	325,945
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	-
Preferred Stock B (B)	0.06 shs.	12/20/10	-	-
Common Stock (B)	33 shs.	12/20/10	1,667	-
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share				
(B)	12 shs.	12/20/10	105,643 272,310	- -
Janus Group Holdings LLC A manufacturer of roll-up doors and hallway systems that are primarily used in self-storage facilities.				
13.5% Senior Subordinated Note due 2019	\$ 1,342,391	12/11/13	1,318,315	1,382,663
Limited Liability Company Unit Class A (B)	283 uts.	12/11/13	232,837 1,551,152	567,229 1,949,892
JMH Investors LLC A developer and manufacturer of custom formulations for a wide variety of foods.				
14.25% Senior Subordinated Note due 2019	\$ 1,075,706	12/05/12	1,058,602	1,011,322
Limited Liability Company Unit (B)	217,391 uts.	12/05/12	217,391 1,275,993	98,234 1,109,556
K & N Parent, Inc. A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.				
Preferred Stock Series A (B)	102 shs.	12/23/11	-	-



Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Preferred Stock Series B (B)	29 shs.	12/23/11	-	-
Common Stock (B)	163 shs.	*	6,522	132,624
* 12/23/11 and 06/30/14.			6,522	132,624

K N B Holdings Corporation

A designer, manufacturer and marketer of products for the custom framing market.

Common Stock (B)	71,053 shs.	05/24/06	71,053	68,148
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	37,871 108,924	41,817 109,965

---

17

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>K P I Holdings, Inc.</b>				
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	\$ 88,547
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	168,560
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	36,501
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	- 327,925	48,390 380,878
<b>LPC Holding Company</b>				
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	147,625
<b>M V I Holding, Inc.</b>				
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
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.		09/12/08	34,714 66,857
<b>Mail Communications Group, Inc.</b>				
A provider of mail processing and handling services, lettershop services, and commercial printing services.				
Limited Liability Company Unit (B)	12,764 uts.		*	166,481
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)	1,787 shs.		05/04/07	22,781
* 05/04/07 and 01/02/08.				
				189,262
				24,785
				201,813

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Manhattan Beachwear Holding  
Company

A designer and distributor of women's swimwear.

12.5% Senior Subordinated Note due 2018	\$ 419,971	01/15/10	390,193	419,971
15% Senior Subordinated Note due 2018	\$ 113,118	10/05/10	111,884	112,569
Common Stock (B)	35 shs.	10/05/10	35,400	82,998
Common Stock (B)	118 shs.	01/15/10	117,647	275,841
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	10/05/10	94,579	244,118
			749,703	1,135,497

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 83,821
Common Unit Class A (B)	671 uts.	08/29/08	671	96,410
Common Unit Class B (B)	263 uts.	08/29/08	63,564	37,821
			130,686	218,052

## 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 2019	\$ 454,295	09/22/11	448,144	454,295
Limited Liability Company Unit Series A	228 uts.	05/07/14	14,760	11,341
Limited Liability Company Unit Series B (B)	155,945 uts.	09/22/11	155,945	149,873
			618,849	615,509

## 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	-
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	-

## MES Partners, Inc.

An industrial service business offering an array of cleaning and environmental services to the Gulf Coast region of the U.S.

12% Senior Subordinated Note due 2021	\$ 1,082,045	09/30/14	1,060,410	1,079,511
Common Stock Class B (B)	219,545 shs.	09/30/14	219,545	208,568

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

			1,279,955	1,288,079
<b>MNX Holding Company</b>				
An international third party logistics company providing customized logistics services to customers across the globe.				
14% Senior Subordinated Note				
due 2019	\$ 1,252,274	11/02/12	1,232,608	1,155,158
Common Stock (B)	45 shs.	11/02/12	44,643	-
			1,277,251	1,155,158
<b>Motion Controls Holdings</b>				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated				
Note due 2020	\$ 969,976	11/30/10	959,792	969,976
Limited Liability Company				
Unit Class B-1 (B)	75,000 uts.	11/30/10	-	79,918
Limited Liability Company				
Unit Class B-2 (B)	6,801 uts.	11/30/10	-	7,247
			959,792	1,057,141

---

19

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
NABCO, Inc. A producer of explosive containment vessels in the United States.				
Common Stock (B)	429 shs.	12/20/12	\$ 306,091	\$ -
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 2015	\$ 1,061,463	02/02/07	1,048,639	1,013,273
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	14,435
Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	34,547	140,038
* 12/18/08 and 09/30/09.			1,801,296	1,167,746
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	\$ 486,792	11/05/10	461,436	486,792
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	34,741
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	70,386
Limited Liability Company Unit Series F (B)	34,931 uts.	11/05/10	-	8,698
			513,608	600,617
Northwest Mailing Services, Inc. A producer of promotional materials for companies that use direct mail as part of their customer retention and loyalty programs.				
Limited Partnership Interest (B)	1,740 uts.		* 174,006	143,941
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	2,605 shs.		* 260,479	215,474
*07/09/09 and 08/09/10.			434,485	359,415
O E C Holding Corporation A provider of elevator maintenance, repair and modernization services.				
13% Senior Subordinated Note due 2018	\$ 444,445	06/04/10	423,174	444,445
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	24,804
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	-

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Common Stock (B)	344 shs.	06/04/10	344	-
			509,997	469,249

---

20

---

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>P K C Holding Corporation</b>				
A manufacturer of plastic film and badges for the general industrial, medical, and food industries.				
Preferred Stock Class A (B)	29 shs.	12/21/10	\$ 180,380	\$ 351,657
Common Stock (B)	29 shs.	12/21/10	13,500	181,324
			193,880	532,981
<b>P P T Holdings LLC</b>				
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	\$ 1,001,150	12/20/10	990,702	1,001,150
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	139,255
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	1,072	40,883
			1,097,845	1,181,288
<b>Pearlman Enterprises, Inc.</b>				
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	456,990
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	456,990
<b>Petroplex Inv Holdings LLC</b>				
A leading provider of acidizing services to E&P customers in the Permian Basin.				
16% Senior Subordinated Note due 2018	\$ 1,177,984	11/29/12	1,157,234	1,228,178
Limited Liability Company Unit (B)	156,250 uts.	11/29/12	156,250	229,503
			1,313,484	1,457,681
<b>Polytex Holdings LLC</b>				
A manufacturer of water based inks and related products serving primarily the wall covering market.				
13% Senior Subordinated Note due 2020	\$ 1,038,401	07/31/14	1,018,109	1,035,640
Limited Liability Company Unit	148,096 uts.	07/31/14	148,096	140,691
			1,166,205	1,176,331



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	210,035
R A J Manufacturing Holdings LLC A designer and manufacturer of women's swimwear sold under a variety of licensed brand names. 8% Senior Subordinated Note due 2017				
	\$ 49,908	01/02/14	\$ 217,411	\$ 49,908
Limited Liability Company Unit (B)				
	1,497 uts.	12/15/06	149,723	37,324
Limited Liability Company Unit Class B Common (B)				
	6 uts.	01/02/14	219,593	54,742
Limited Liability Company Unit Class B-1 Preferred (B)				
	9 uts.	01/02/14	374,307	374,308
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)				
	2 shs.	12/15/06	69,609	17,613
			1,030,643	533,895
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				
	\$ 1,178,233	*	1,164,395	1,197,078
Limited Liability Company Unit Class A (B)				
	13,548 uts.	*	135,477	169,020
			1,299,872	1,366,098
* 10/21/11 and 08/03/12.				
Rose City Holding Company A designer and printer of folding cartons and packaging for food and beverage manufacturers on the West Coast.				
Preferred Stock (B)	39,062 shs.	12/11/12	39,062	45,626
Common Stock (B)	39 shs.	12/11/12	4	43,687
			39,066	89,313

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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	*	834,773	852,188
Preferred Stock (B)	2,098 shs.	03/30/12	83,920	102,964
Common Stock (B)	983 shs.	03/30/12	9,830	46,154
* 03/30/12 and 05/16/13.			928,523	1,001,306

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.

7% Senior Subordinated Note due 2015 (D)	\$ 1,404,092	01/15/09	826,004	280,818
--	--------------	----------	---------	---------

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	716,861	770,190
Common Stock (B)	76 shs.	03/15/13	75,509	165,494
Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B)	31 shs.	03/15/13	28,316	67,613
			820,686	1,003,297

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Smart Source Holdings LLC A short-term computer rental company. Limited Liability Company Unit (B)	328 uts.	*	\$ 261,262	\$ 460,993
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B) * 08/31/07 and 03/06/08.	83 shs.	*	67,467 328,729	116,770 577,763
SMB Machinery Holdings, Inc. A reseller of used, rebuilt and refurbished packaging and processing equipment, primarily serving the bottling and food manufacturing industries. 14% Senior Subordinated Note due 2019	\$ 742,387	10/18/13	729,393	716,422
Common Stock (B)	841 shs.	10/18/13	84,100 813,493	- 716,422
Spartan Foods Holding Company A manufacturer of branded pizza crusts and pancakes. 14.25% Senior Subordinated Note due 2017	\$ 605,299	12/15/09	551,342	605,299
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	136 shs.	12/15/09	120,234 671,576	85,327 690,626
Specialty Commodities, Inc. A distributor of specialty food ingredients. Common Stock (B)	16 shs.	10/23/08	158,824	415,436
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6 shs.	10/23/08	53,285 212,109	156,946 572,382

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Stag Parkway Holding Company

A distributor of RV parts and accessories in the United States.

13% Senior Subordinated Note due 2018	\$ 1,152,104	12/19/12	1,110,920	1,152,104
Common Stock (B)	118 shs.	12/19/12	118,203	152,651
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	12/19/12	31,848 1,260,971	44,827 1,349,582

Strahman Holdings Inc

A manufacturer of industrial valves and wash down equipment for a variety of industries, including chemical, petrochemical, polymer, pharmaceutical, food processing, beverage and mining.

14% Senior Subordinated Note due 2019	\$ 1,059,783 158,967	12/13/13	1,040,079	1,082,446
Preferred Stock Series A (B)	shs.	12/13/13	158,967 1,199,046	123,594 1,206,040

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Strata/WLA Holding Corporation</b>				
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 (D)				
	\$ 959,148	07/01/11	\$943,703	\$-
Preferred Stock Series A (B)				
	76 shs.	07/01/11	76,046	-
			1,019,749	-
<b>Sundance Investco LLC</b>				
A provider of post-production services to producers of movies and television shows.				
Limited Liability Company Unit Class A (B)				
	3,405 uts.	03/31/10	-	-
<b>Sunrise Windows Holding Company</b>				
A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.				
14% Senior Subordinated Note due 2017				
	\$ 1,038,557	12/14/10	1,005,216	1,038,027
14% Senior Subordinated PIK Note due 2017				
	\$ 95,902	08/17/12	93,467	95,853
Common Stock (B)				
	38 shs.	12/14/10	38,168	30,254
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)				
	37 shs.	12/14/10	37,249	29,525
			1,174,100	1,193,659
<b>Synteract Holdings Corporation</b>				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
14% Senior Subordinated Note due 2019				
	\$ 2,028,477	09/02/08	1,972,019	1,829,477
Preferred Stock Series D (B)				
	257 shs.	02/27/13	25,678	-
Redeemable Preferred Stock Series A (B)				
	678 shs.	10/03/08	6,630	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)				
	6,778 shs.	09/02/08	59,661	-
			2,063,988	1,829,477
<b>Terra Renewal LLC</b>				
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.				
10% Senior Subordinated Note due 2016 (D)				
	\$ 350,860	*	9,345	350,860

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Common Stock Class B	32 shs.	*	-	-
Limited Partnership Interest of Saw Mill Capital Fund V, LLC (B)	2.27% int.	**	65,387	-
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.			108,470	350,860
**03/01/05 and 10/10/08.				

---

24

---

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>Torrent Group Holdings, Inc.</b>				
A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow.				
3% Senior Subordinated Note due 2018 (D)	\$ 1,062,258	12/05/13	\$ -	\$ 1,009,145
15% Senior Subordinated Note due 2020 (D)	\$ 46,798	12/05/13	219,203	-
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	28,079	12/05/13	- 219,203	- 1,009,145
<b>Transpac Holding Company</b>				
A designer, importer, and wholesaler of home décor and seasonal gift products.				
12% Senior Subordinated Note due 2015 (D)	\$ 938,651	10/31/07	909,276	-
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 1,066,086	- -
<b>Tranzonic Holdings LLC</b>				
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	\$ 1,514,157	07/05/13	1,488,841	1,525,643
Limited Liability Company Unit Class A (B)	147,727 shs.	07/05/13	147,727 1,636,568	167,189 1,692,832
<b>Truck Bodies &amp; Equipment International</b>				
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	\$ 727,062	*	716,260	727,062
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	454,860

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Common Stock (B)	393 shs.	*	423,985	24,154
Warrant, exercisable until 2017, to purchase common stock at \$.02 per share (B)	81 shs.	*	84,650	4,988
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	558 shs.	10/20/08	-	34,304
* 07/19/05 and 12/22/05.			1,352,572	1,245,368
TruStile Doors, Inc.				
A manufacturer and distributor of interior doors.				
Limited Liability Company				
Unit (B)	5,888 uts.	02/28/11	78,125	219,025
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	3,060 shs.	04/11/03	36,032	31,747
			114,157	250,772



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
<b>U-Line Corporation</b>				
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	\$ 234,588
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	122 shs.	04/30/04	112,106 208,506	296,885 531,473
<b>U M A Enterprises, Inc.</b>				
An importer and wholesaler of home décor products.				
15% Senior Subordinated Note 2021	\$ 1,236,665	06/06/14	338,374	1,259,667
Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B)	791 shs.	06/06/14	- 338,374	41,071 1,300,738
<b>Vitex Packaging Group, Inc.</b>				
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	78,922
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	78,922
<b>VP Holding Company</b>				
A provider of school transportation services for special-needs and homeless children in Massachusetts.				
13% Senior Subordinated Note due 2020	\$ 501,842	03/31/14	492,420	515,330
Common Stock (B)	3,632 shs.	03/31/14	363,158 855,578	318,330 833,660
<b>Wellborn Forest Holding Company</b>				

A manufacturer of semi-custom kitchen and bath cabinetry.

8% Senior Subordinated Note due 2017 (D)	\$	1,680,931	11/30/06	867,531	-
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	-

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	103,791
Common Stock (B)		353 shs.	06/08/10	353	50,883
				70,661	154,674

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 752,050	\$ 789,863
Common Stock (B)	205 shs.	12/16/10	205,480	80,162
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	55 shs.	12/16/10	49,334	21,542
			1,006,864	891,567
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	\$ 913,965	11/03/11	901,995	932,243
Common Stock (B)	1,500 shs.	11/03/11	150,000	200,866
			1,051,995	1,133,109
Total Private Placement Investments (E)			\$ 84,008,596	\$ 83,562,794



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Interest	Due	Principal		Market
	Rate	Date	Amount	Cost	Value
Rule 144A Securities - 12.89%:					
Bonds - 12.89%					
Alliant Techsystems Inc.	5.250	% 10/01/21	\$ 500,000	\$ 500,000	\$ 501,250
Amsted Industries	5.375	09/15/24	240,000	240,000	232,800
ArcelorMittal	6.125	06/01/18	500,000	510,135	530,000
Belden Inc.	5.250	07/15/24	210,000	210,000	201,075
California Resources Corporation	6.000	11/15/24	480,000	480,000	493,200
CITGO Petroleum Corporation	6.250	08/15/22	425,000	425,000	442,000
Cornerstone Chemical Company	9.375	03/15/18	375,000	382,618	393,750
CTP Transportation Products, LLC	8.250	12/15/19	310,000	310,000	330,925
Endo Finance LLC	5.375	01/31/23	500,000	490,131	477,500
First Data Corporation	7.375	06/15/19	250,000	250,000	263,150
Forest Laboratories, Inc.	5.000	12/15/21	370,000	370,000	395,486
Forest Laboratories, Inc.	4.875	02/15/21	500,000	500,000	533,390
Hercules Offshore, Inc.	7.500	10/01/21	750,000	750,000	603,750
Hilcorp Energy Company	7.625	04/15/21	325,000	313,798	342,062
Hilcorp Energy Company	5.000	12/01/24	335,000	335,000	322,438
Hilton Worldwide Holdings, Inc.	5.625	10/15/21	750,000	750,000	772,500
J.B. Poindexter Co., Inc.	9.000	04/01/22	500,000	500,000	536,875
JBS USA Holdings, Inc.	7.750	10/28/20	375,000	393,858	398,437
Jupiter Resources Inc.	8.500	10/01/22	500,000	476,206	443,750
Lamar Media Corporation	5.375	01/15/24	160,000	160,000	160,400
LBC Tank Terminals Holding					
Netherlands B.V.	6.875	05/15/23	663,000	682,849	706,095
Mallinckrodt PLC	5.750	08/01/22	500,000	500,000	503,750
MEG Energy Corporation	6.375	01/30/23	500,000	500,000	504,375
MEG Energy Corporation	7.000	03/31/24	500,000	500,000	517,500
Niska Gas Storage Partners LLC	6.500	04/01/19	500,000	500,000	437,500
NRG Energy, Inc.	6.250	07/15/22	500,000	500,000	512,813
Numericable Group SA	4.875	05/15/19	240,000	240,000	237,000
NXP BV/NXP Funding LLC	3.750	06/01/18	750,000	750,000	736,875
Paperworks Industries, Inc.	9.500	08/15/19	500,000	511,612	508,750
Penske Corporation	4.875	07/11/22	500,000	498,226	537,322
RKI Inc.	8.500	08/01/21	500,000	502,232	516,250
Prestige Brands Holdings, Inc.	5.375	12/15/21	650,000	650,000	611,000



## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Interest Rate	Due Date	Shares or Principal Amount	Cost	Market Value
Safway Group Holding LLC/Finance Corporation	7.000	% 05/15/18	\$ 250,000	\$ 250,000	\$ 254,375
Sirius XM Radio Inc.	5.875	10/01/20	445,000	445,000	450,563
Sprint Corporation	7.125	06/15/24	155,000	155,000	156,163
Topaz Marine S.A.	8.625	11/01/18	500,000	500,000	517,600
Univision Communications	5.125	05/15/23	160,000	160,000	162,000
Valeant Pharmaceuticals International	7.000	10/01/20	250,000	250,656	261,250
Welltec A/S	8.000	02/01/19	375,000	369,673	388,125
West Corporation	5.375	07/15/22	500,000	490,171	461,250
William Lyon Homes	7.000	08/15/22	500,000	500,000	506,250
XPO Logistics, Inc.	7.875	09/01/19	210,000	210,000	216,825
Total Bonds				18,012,165	18,078,369
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				18,012,165	18,078,369
Total Corporate Restricted Securities				\$ 102,020,761	\$ 101,641,163

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Public Securities - 30.74%: (A)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
Bank Loans - 0.22%					
American Energy - Marcellus, LLC	5.250	% 07/09/21	\$ 139,318	138,639	137,968
Aquilex Holdings LLC	5.250	12/31/20	170,119	169,736	168,134
Total Bank Loans				308,375	306,102
Bonds - 30.51%					
AAR Corporation	7.250	% 01/15/22	\$ 1,000,000	\$ 1,054,036	\$ 1,075,000
Access Midstream Partners, L.P.	4.875	03/15/24	500,000	500,000	511,250
Accuride Corp	9.500	08/01/18	500,000	486,764	521,250
ADT Corporation	6.250	10/15/21	500,000	517,213	517,500
Alcoa, Inc.	6.150	08/15/20	600,000	623,917	661,296
Alliant Techsystems Inc.	6.875	09/15/20	500,000	530,057	537,500
Ally Financial, Inc.	5.500	02/15/17	750,000	759,121	780,000
Alta Mesa Financial Services	9.625	10/15/18	750,000	732,692	776,250
Anixter, Inc.	5.125	10/01/21	165,000	165,000	162,938
Antero Resources Corporation	5.375	11/01/21	395,000	395,000	393,025
American Axle & Manufacturing, Inc.	5.125	02/15/19	120,000	120,000	119,400
Anglogold Holdings PLC	5.375	04/15/20	600,000	604,178	602,466
Avis Budget Car Rental	9.750	03/15/20	375,000	375,000	412,500
B E Aerospace, Inc.	6.875	10/01/20	250,000	255,446	266,875
B&G Foods, Inc.	4.625	06/01/21	440,000	440,000	419,100
Bank of America Corporation	4.000	04/01/24	500,000	498,202	505,211
Bill Barrett Corporation	7.000	10/15/22	500,000	482,088	496,250
Bonanza Creek Energy, Inc.	5.750	02/01/23	500,000	500,000	480,000
Braskem Finance Ltd.	6.450	02/03/24	375,000	375,000	390,000
Brunswick Corporation	7.125	08/01/27	500,000	504,558	540,000
Calumet Specialty Products Partners L.P.	7.625	01/15/22	500,000	502,492	507,500
Calpine Corporation	5.750	01/15/25	340,000	340,000	330,225
CCO Holdings Capital Corporation	5.250	09/30/22	500,000	495,804	489,375
CCO Holdings Capital Corporation	5.750	01/15/24	500,000	483,396	497,500
Centurytel, Inc.	5.000	02/15/15	500,000	501,358	503,750
CHC Helicopter SA	9.250	10/15/20	900,000	845,060	958,500
Chrysler Group, LLC	8.000	06/15/19	210,000	225,503	222,863
Chrysler Group, LLC	8.250	06/15/21	210,000	230,482	228,900
Cimarex Energy Co.	5.875	05/01/22	500,000	535,098	537,500
CIT Group, Inc.	5.000	08/15/22	500,000	500,000	501,250
CIT Group, Inc.	3.875	02/19/19	500,000	500,000	491,250
Clearwater Paper Corporation	4.500	02/01/23	500,000	495,621	477,500
Coeur d'Alene Mines Corporation	7.875	02/01/21	500,000	501,648	468,750



30

---

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Public Securities: (A) (Continued)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
Commercial Metals Company	4.875	% 05/15/23	\$ 750,000	\$ 751,402	\$ 720,000
Continental Resources, Inc.	5.000	09/15/22	500,000	509,802	527,500
CVR Refining LLC	6.500	11/01/22	350,000	338,819	357,000
DaVita, Inc.	5.750	08/15/22	500,000	500,000	518,125
Duke Realty Limited Partnership	3.875	10/15/22	500,000	505,672	505,619
Enesco PLC	3.250	03/15/16	600,000	599,223	618,040
Equifax, Inc.	4.450	12/01/14	500,000	500,693	500,734
Forum Energy Technologies	6.250	10/01/21	160,000	160,000	164,400
GATX Corporation	4.750	05/15/15	500,000	502,065	512,517
General Electric Capital Corporation	5.500	01/08/20	500,000	498,818	572,989
HCA Holdings, Inc.	3.750	03/15/19	500,000	500,000	488,750
Headwaters, Inc.	7.625	04/01/19	305,000	305,104	317,963
HealthSouth Corporation	7.750	09/15/22	405,000	405,797	431,831
Hertz Corporation	6.750	04/15/19	220,000	217,666	226,875
Hornbeck Offshore Services, Inc.	5.000	03/01/21	500,000	500,000	475,000
Icahn Enterprises L.P.	4.875	03/15/19	475,000	475,000	467,875
Icahn Enterprises L.P.	6.000	08/01/20	600,000	610,908	616,500
International Game Technology	7.500	06/15/19	500,000	499,841	565,619
Jabil Circuit, Inc.	4.700	09/15/22	500,000	499,972	503,125
Johnson Controls, Inc.	5.500	01/15/16	500,000	476,038	529,966
Kraft Foods, Inc.	5.375	02/10/20	500,000	510,428	566,877
Lazard Group LLC	4.250	11/14/20	500,000	498,535	522,710
Lear Corporation	4.750	01/15/23	375,000	368,409	370,313
Lennar Corporation	4.750	11/15/22	375,000	369,919	362,813
Lifepoint Hospitals, Inc.	5.500	12/01/21	350,000	360,032	354,375
Linn Energy, LLC	8.625	04/15/20	500,000	504,334	516,875
Masco Corporation	7.125	03/15/20	350,000	349,999	402,500
MasTec, Inc.	4.875	03/15/23	500,000	490,504	467,500
Meritor, Inc.	6.750	06/15/21	1,000,000	1,000,000	1,040,000
Morgan Stanley	5.500	01/26/20	500,000	498,376	560,626
NBC Universal Media LLC	5.150	04/30/20	500,000	499,542	567,688
Nexeo Solutions LLC	8.375	03/01/18	20,000	20,000	19,800
Omnova Solutions, Inc.	7.875	11/01/18	750,000	760,416	763,125
Peabody Energy Corporation	6.000	11/15/18	500,000	500,424	490,000
Perry Ellis International, Inc.	7.875	04/01/19	375,000	372,268	378,750
Precision Drilling Corporation	6.625	11/15/20	250,000	256,106	259,375
Qwest Diagnostic, Inc.	4.750	01/30/20	500,000	499,208	539,908
Regency Energy Partners LP	5.875	03/01/22	425,000	418,425	442,000
Rosetta Resources Inc.	5.875	06/01/22	500,000	500,000	498,125



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Public Securities (A)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
R.R. Donnelley & Sons Company	6.000	%04/01/24	\$ 500,000	\$ 500,000	\$ 493,750
Samson Investment Company	9.750	02/15/20	350,000	342,356	317,625
ServiceMaster Company	7.000	08/15/20	325,000	325,000	338,000
Sprint Nextel Corporation	6.000	12/01/16	500,000	506,697	525,937
Steelcase, Inc.	6.375	02/15/21	500,000	506,161	578,656
Stone Energy Corporation	7.500	11/15/22	500,000	513,950	515,150
Tech Data Corporation	3.750	09/21/17	500,000	504,599	517,850
Tesoro Logistics LP	5.875	10/01/20	391,000	398,923	404,684
Time Warner Cable, Inc.	5.000	02/01/20	500,000	493,895	555,623
T-Mobile USA Inc.	6.464	04/28/19	340,000	344,632	353,175
T-Mobile USA Inc.	6.731	04/28/22	210,000	207,550	214,725
T-Mobile USA Inc.	6.836	04/28/23	65,000	63,640	66,788
Tronox Finance LLC	6.375	08/15/20	375,000	367,178	376,406
Tyson Foods, Inc.	4.500	06/15/22	500,000	513,598	529,917
Unit Corporation	6.625	05/15/21	500,000	494,960	501,250
Weatherford International Limited	4.500	04/15/22	500,000	517,722	520,557
WPX Energy, Inc.	5.250	09/15/24	425,000	425,000	412,250
Xerium Technologies, Inc.	8.875	06/15/18	416,000	433,096	438,880
Total Bonds				41,667,436	42,787,685

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Corporate Public Securities (A)	Shares	Cost	Market Value
Common Stock - 0.01%			
Nortek, Inc. (B)	100	\$ 1	\$ 7,450
Total Common Stock		1	7,450
Total Corporate Public Securities		\$ 41,975,812	\$ 43,101,237
Short-Term Securities:	Interest Rate/Yield	Due Date	Principal Amount
Commercial Paper - 4.14%			
Ameren Corporation	0.260	% 10/10/14	\$ 2,300,000
Enbridge Inc.	0.284	10/18/14	2,000,000
Equifax, Inc.	0.220	10/03/14	1,500,000
Total Short-Term Securities			\$ 5,799,712
Total Investments	107.37	%	\$ 149,796,285
Other Assets	4.44		6,218,931
Liabilities	(11.81	)	(16,554,031)
Total Net Assets	100.00	%	\$ 140,207,012

(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, 2014.

(D) Defaulted security; interest not accrued.

(E) Illiquid security. As of September 30, 2014, the values of these securities amounted to \$83,562,794 or 59.6% of net assets.

^Effective yield at purchase

PIKPayment-in-kind

-



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Industry Classification:	Fair Value/ Market Value		Fair Value/ Market Value
<b>AEROSPACE - 2.77%</b>		<b>BROADCASTING &amp; ENTERTAINMENT - 1.08%</b>	
AAR Corporation	\$ 1,075,000	Lamar Media Corporation	\$ 160,400
Alliant Techsystems Inc.	1,038,750	HOP Entertainment LLC	-
B E Aerospace, Inc.	266,875	NBC Universal Media LLC	567,688
Merex Holding Corporation	615,509	Numericable Group SA	237,000
Whitcraft Holdings, Inc.	891,567	Time Warner Cable, Inc.	555,623
	3,887,701	Sundance Investco LLC	-
<b>AUTOMOBILE - 5.45%</b>			1,520,711
Accuride Corp	521,250	<b>BUILDINGS &amp; REAL ESTATE - 2.81%</b>	
American Axle & Manufacturing, Inc.	119,400	ACP Cascade Holdings LLC	-
		Duke Realty Limited Partnership	505,619
Avis Budget Car Rental	412,500		
CG Holdings Manufacturing Company	1,635,078	Lennar Corporation	362,813
Chrysler Group, LLC	451,763	Masco Corporation	402,500
DPL Holding Corporation	1,693,597	MasTec, Inc.	467,500
		Safway Group Holding LLC/Finance Corporation	254,375
Ideal Tridon Holdings, Inc.	197,968	Sunrise Windows Holding Company	1,193,659
J A C Holding Enterprises, Inc.	-	TruStile Doors, Inc.	250,772
Johnson Controls, Inc.	529,966	William Lyon Homes	506,250
K & N Parent, Inc.	132,624		3,943,488
Lear Corporation	370,313	<b>CHEMICAL, PLASTICS &amp; RUBBER - 2.92%</b>	
Meritor, Inc.	1,040,000	Capital Specialty Plastics, Inc.	787,507
Penske Corporation	537,322	Cornerstone Chemical Company	393,750
	7,641,781		
<b>BEVERAGE, DRUG &amp; FOOD - 6.74%</b>		Nicoat Acquisitions LLC	600,617
1492 Acquisition LLC	794,263	Omnova Solutions, Inc.	763,125
B&G Foods, Inc.	419,100	Polytex Holdings LLC	1,176,331
Eatem Holding Company	1,210,051	Tronox Finance LLC	376,406
JBS USA Holdings, Inc.	398,437		4,097,736
		<b>CONSUMER PRODUCTS - 9.80%</b>	
F F C Holding Corporation	236,937	AMS Holding LLC	259,206
Gennx Novel Holding, Inc.	1,721,547		
Golden County Foods Holding, Inc.	-	Baby Jogger Holdings LLC	1,084,440
Hospitality Mints Holding Company	1,200,897	Bravo Sports Holding Corporation	1,331,437
JMH Investors LLC	1,109,556	Clearwater Paper Corporation	477,500
Kraft Foods, Inc.	566,877	Custom Engineered Wheels, Inc.	439,512

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Spartan Foods Holding Company	690,626	gloProfessional Holdings, Inc.	1,321,505
Specialty Commodities, Inc.	572,382	GTI Holding Company	838,795
Tyson Foods, Inc.	529,917	Handi Quilter Holding Company	225,203
	9,450,590	HHI Group, LLC	1,636,521
		K N B Holdings Corporation	109,965
		Manhattan Beachwear Holding Company	1,135,497

See Notes to Consolidated Financial Statements

---

34

---



**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

September 30, 2014

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value	
NXP BV/NXP Funding LLC	\$ 736,875	K P I Holdings, Inc.	\$ 380,878
Perry Ellis International, Inc.	378,750	LPC Holding Company	147,625
Prestige Brands Holdings, Inc.	611,000	Nortek, Inc.	7,450
R A J Manufacturing Holdings LLC	533,895	O E C Holding Corporation	469,249
R.R. Donnelley & Sons Company	493,750	Strahman Holdings Inc	1,206,040
		Truck Bodies & Equipment	
Tranzonic Holdings LLC	1,692,832	International	1,245,368
Xerium Technologies, Inc.	438,880		11,555,860
	13,745,563	DIVERSIFIED/CONGLOMERATE, SERVICE -	
CONTAINERS, PACKAGING & GLASS - 2.22%		9.92%	
Paperworks Industries, Inc.	508,750	ADT Corporation	517,500
		A S C Group, Inc.	1,432,652
P K C Holding Corporation	532,981	A W X Holdings	
		Corporation	210,000
P P T Holdings LLC	1,181,288	Advanced Technologies	
Rose City Holding Company	89,313	Holdings	616,734
		Anglogold Holdings PLC	602,466
SMB Machinery Holdings, Inc.	716,422	Bank of America	
		Corporation	505,211
Vitex Packaging Group, Inc.	78,922	Church Services Holding	
		Company	496,424
	3,107,676	Clough, Harbour and	
DISTRIBUTION - 5.53%		Associates	211,819
ARI Holding Corporation	2,063,822	Crane Rental Corporation	1,140,506
Blue Wave Products, Inc.	764,325	ELT Holding Company	216,563
BP SCI LLC	1,433,584	EPM Holding Company	704,322
		Equifax, Inc.	2,000,716
Signature Systems Holding Company	1,003,297	Hilton Worldwide	
Stag Parkway Holding Company	1,349,582	Holdings, Inc.	772,500
		HVAC Holdings, Inc.	1,330,606
WP Supply Holding Corporation	1,133,109	Insurance Claims	
		Management, Inc.	325,945
	7,747,719	Mail Communications	
DIVERSIFIED/CONGLOMERATE,		Group, Inc.	201,813
		Nexeo Solutions LLC	19,800
MANUFACTURING - 8.24%		Northwest Mailing	
A H C Holding Company, Inc.	268,077	Services, Inc.	359,415
Advanced Manufacturing Enterprises		Pearlman Enterprises, Inc.	456,990
LLC	1,263,890	Safety Infrastructure	
		Solutions	1,001,306

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Amsted Industries	232,800	ServiceMaster Company	338,000
Arrow Tru-Line Holdings, Inc.	301,285	Sirius XM Radio Inc.	450,563
C D N T, Inc.	605,527		13,911,851
CTP Transportation Products, LLC	330,925	ELECTRONICS - 1.60%	
F G I Equity LLC	239,124	Anixter, Inc.	162,938
G C Holdings	110,776	Belden Inc.	201,075
Hartland Controls Holding Corporation	1,450,385	Connecticut Electric, Inc.	856,108
Hi-Rel Group LLC	809,694	Jabil Circuit, Inc.	503,125
Janus Group Holdings LLC	1,949,892	Tech Data Corporation	517,850
J.B. Poindexter Co., Inc.	536,875		2,241,096

See Notes to Consolidated Financial Statements

---

35

---

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2014

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value	
FINANCIAL SERVICES - 5.89%		LEISURE, AMUSEMENT, ENTERTAINMENT - 1.94%	
Ally Financial, Inc.	\$ 780,000	Brunswick Corporation	\$ 540,000
Alta Mesa Financial Services	776,250	CTM Holding, Inc.	1,615,145
Braskem Finance Ltd.	390,000	International Game Technology	565,619
CIT Group, Inc.	992,500		2,720,764
GATX Corporation	512,517	MACHINERY - 3.70%	
General Electric Capital Corporation	572,989	ABC Industries, Inc.	745,344
Icahn Enterprises L.P.	1,084,375	Arch Global Precision LLC	1,574,820
Lazard Group LLC	522,710	E S P Holdco, Inc.	247,931
LBC Tank Terminals Holding Netherlands B.V.	706,095	Motion Controls Holdings	1,057,141
Morgan Stanley	560,626	M V I Holding, Inc.	-
REVSpring, Inc.	1,366,098	NetShape Technologies, Inc.	1,167,746
	8,264,160	Welltec A/S	388,125
HEALTHCARE, EDUCATION & CHILDCARE - 6.15%			5,181,107
American Hospice Management Holding LLC	1,274,972	MEDICAL DEVICES/BIOTECH - 0.67%	
CHG Alternative Education Holding Company	1,061,008	ETEX Corporation	-
DaVita, Inc.	518,125	Mallinckrodt PLC	503,750
GD Dental Services LLC	123,049	MedSystems Holdings LLC	218,052
ERG Holding Company LLC	1,021,198	MicroGroup, Inc.	-
HCA Holdings, Inc.	488,750	Precision Wire Holding Company	210,035
Healthcare Direct Holding Company	827,793	TherOX, Inc.	-
HealthSouth Corporation	431,831		931,837
Lifepoint Hospitals, Inc.	354,375	MINING, STEEL, IRON & NON-PRECIOUS METALS - 1.67%	
Qwest Diagnostic, Inc.	539,908	Alcoa, Inc.	661,296
Strata/WLA Holding Corporation	-	Coeurd' Alene Mines Corporation	468,750
Synteract Holdings Corporation	1,829,477	Commercial Metals Company	720,000
Touchstone Health Partnership	-		

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Wheaton Holding Corporation	154,674	Peabody Energy Corporation	490,000
	8,625,160		2,340,046
HOME & OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 2.64%		NATURAL RESOURCES - 0.60%	
Connor Sport Court International, Inc.	1,283,103	ArcelorMittal	530,000
Steelcase, Inc.	578,656	Headwaters, Inc.	317,963
Transpac Holding Company	-		847,963
U-Line Corporation	531,473	OIL & GAS - 13.21%	
U M A Enterprises, Inc.	1,300,738	Access Midstream Partners, L.P.	511,250
Wellborn Forest Holding Company	-	American Energy - Marcellus, LLC	137,968
	3,693,970	Antero Resources Corporation	393,025
		Avantech Testing Services LLC	846,260
		Bill Barrett Corporation	496,250
		Bonanza Creek Energy, Inc.	480,000

See Notes to Consolidated Financial Statements

**CONSOLIDATED SCHEDULE OF INVESTMENTS** (CONTINUED)

September 30, 2014

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
		<b>TELECOMMUNICATIONS -</b>	
California Resources Corporation	\$ 493,200	2.62%	
Calumet Specialty Products Partners L.P.	507,500	All Current Holding Company	\$ 245,316
Cimarex Energy Co.	537,500	CCO Holdings Capital Corporation	986,875
CITGO Petroleum Corporation	442,000	Centurytel, Inc.	503,750
Continental Resources, Inc.	527,500	Sprint Corporation	156,163
CVR Refining LLC	357,000	Sprint Nextel Corporation	525,937
Enbridge Inc.	1,999,891	T-Mobile USA Inc.	634,688
Enscoc PLC	618,040	Univision Communications	162,000
Forum Energy Technologies	164,400	West Corporation	461,250
Hercules Offshore, Inc.	603,750		3,675,979
Hilcorp Energy Company	664,500	<b>TRANSPORTATION - 2.79%</b>	
Hornbeck Offshore Services, Inc.	475,000	CHC Helicopter SA	958,500
Jupiter Resources Inc.	443,750	Hertz Corporation	226,875
Linn Energy, LLC	516,875	MNX Holding Company	1,155,158
MEG Energy Corporation	1,021,875	NABCO, Inc.	-
Niska Gas Storage Partners LLC	437,500	Topaz Marine S.A.	517,600
Petroplex Inv Holdings LLC	1,457,681	VP Holding Company	833,660
Precision Drilling Corporation	259,375	XPO Logistics, Inc.	216,825
Regency Energy Partners LP	442,000		3,908,618
RKI Inc.	516,250	<b>UTILITIES - 2.24%</b>	
Rosetta Resources Inc.	498,125	Ameren Corporation	2,299,839
Samson Investment Company	317,625	Calpine Corporation	330,225
Stone Energy Corporation	515,150	NRG Energy, Inc.	512,813
Tesoro Logistics LP	404,684		3,142,877
Unit Corporation	501,250	<b>WASTE MANAGEMENT / POLLUTION - 2.01%</b>	
Weatherford International Limited	520,557	Aquilex Holdings LLC	168,134
WPX Energy, Inc.	412,250	MES Partners, Inc.	1,288,079
	18,519,981	Terra Renewal LLC	350,860
<b>PHARMACEUTICALS - 1.36%</b>		Torrent Group Holdings, Inc.	1,009,145
CorePharma LLC	232,303		2,816,218
Endo Finance LLC	477,500		
Forest Laboratories, Inc.	928,876	Total Investments - 107.37%	\$ 150,542,112
Valeant Pharmaceuticals International	261,250		
	1,899,929		
<b>TECHNOLOGY - 0.80%</b>			

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

First Data Corporation	263,150
Sencore Holding Company	280,818
Smart Source Holdings LLC	577,763
	1,121,731

See Notes to Consolidated Financial Statements

---

37

---

## 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 temporarily 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”).

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 \$83,562,794 (59.60% of net assets) as of September 30, 2014 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.

**Corporate Public Securities – Bank Loans, 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, 2014, 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.

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

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 willing 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

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.

The Trust's investments in bank loans are normally valued at the bid quotation obtained from dealers in loans by an independent pricing service in accordance with the Trust's valuation policies and procedures approved by the Trustees.

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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(Unaudited)

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 includes 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 - Corporate Bonds

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.

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

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, 2014.

	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Corporate Bonds	Discounted Cash Flows	Discount Rate	9.9% to 20.7%	13.9%
Equity Securities	Market Approach	Valuation Multiple	4.4x to 11.5x	7.5x
		Discount for lack of marketability	0% to 24%	5.6%
		EBITDA	\$0.0 million to \$137.0 million	\$18.7 million

Fair Values Hierarchy

The Trust 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:

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~~  
are considered significant unobservable inputs.

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, 2014:

Assets	Total	Level 1	Level 2	Level 3
Restricted Securities				
Corporate Bonds	77,712,473	-	18,078,369	59,634,104
Common Stock - U.S.	9,755,616	-	-	9,755,616
Preferred Stock	5,617,101	-	-	5,617,101
Partnerships and LLCs	8,555,973	-	-	8,555,973
Public Securities				
Bank Loans	306,102	-	306,102	-
Corporate Bonds	42,787,685	-	42,787,685	-
Common Stock - U.S.	7,450	7,450	-	-
Short-term Securities	5,799,712	-	5,799,712	-
Total	\$ 150,542,112	\$ 7,450	\$ 66,971,868	\$ 83,562,794

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 12/31/2013	Included in earnings	Purchases	Sales	Prepayments	Transfers in and / or out of Level 3	Ending balance at 09/30/2014
Restricted Securities							
Corporate Bonds	\$ 56,939,587	\$ 2,829,912	\$ 10,875,152	\$(3,318,338 )	\$(7,692,209 )	\$-	\$ 59,634,104
Common Stock - U.S.	9,668,741	1,918,502	717,965	(957,463 )	-	-	11,347,745
Preferred Stock	6,926,282	489,628	(123,526 )	(1,675,283 )	-	-	5,617,101
Partnerships and LLCs	9,491,997	46,456	1,637,511	(2,619,991 )	-	-	8,555,973
Public Securities							
Common Stock	-	-	-	-	-	-	-
	\$ 83,026,607	\$ 5,436,662	\$ 13,371,633	\$(10,579,899 )	\$(7,692,209 )	\$-	\$ 83,562,794

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

Income, Gains and Losses included in Net Increase in Net Assets resulting from operations for the year are presented in the following accounts on the Statement of Operation:

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

	Net Increase in Net Assets Resulting from Operations	Change in Unrealized Gains & (Losses) in Net Assets from assets still held
Interest (Amortization)	\$ 221,176	-
Net Realized Gain on Investments before Taxes	\$ 3,149,920	-
Net Change in Unrealized Depreciation of Investments Before Taxes	\$ 2,065,566	4,707,955

---

40

---

Babson Capital Participation Investors

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

### 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, disclosure of contingent assets and liabilities 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 operating company. The Trust’s violation of this limitation could result in the loss of its status as a

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, 2014, the PI Subsidiary Trust has a deferred tax liability of \$153,395.

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, 2014.

### 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. 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 the day-to-day operations of the Trust and provides the Trust with office space and office equipment,

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, 2014, the PI Subsidiary Trust has incurred income tax expense of \$85,847.

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 (CONTINUED)

(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, 2014, 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

## 6. Quarterly Results of Investment Operations (Unaudited)

	March 31, 2014	Per Share
	Amount	
Investment income	\$ 3,338,986	
Net investment income	2,505,401	\$ 0.24
Net realized and unrealized gain on investments (net of taxes)	1,277,356	0.12
	June 30, 2014	Per Share
	Amount	
Investment income	\$ 3,100,579	
Net investment income	2,438,053	\$ 0.24
Net realized and unrealized gain on investments (net of taxes)	4,441,559	0.43
	September 30, 2014	Per Share
	Amount	
Investment income	\$ 3,670,960	
Net investment income	3,026,732	\$ 0.29
Net realized and unrealized gain on investments (net of taxes)	79,068	0.01

	09/30/14 Cost of Investments Acquired	Proceeds from Sales or Maturities
Corporate restricted securities	\$ 22,796,681	\$ 19,587,152
Corporate public securities	6,999,344	2,890,839

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of September 30, 2014. The net unrealized appreciation of investments for financial reporting and Federal tax purposes as of September 30, 2014 is \$745,827 and consists of \$16,422,259 appreciation and \$15,676,432 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$ 153,395 on net unrealized gains on the PI Subsidiary Trust.



This page intentionally left blank.

**JOINT PRIVACY NOTICE OF BABSON CAPITAL MANAGEMENT LLC, BABSON CAPITAL SECURITIES LLC, BABSON CAPITAL CORPORATE INVESTORS AND BABSON CAPITAL PARTICIPATION INVESTORS**

When you use Babson Capital Management LLC (“Babson Capital”) as your investment adviser, invest in Babson Capital Corporate Investors or Babson Capital Participation Investors (collectively, the “Funds”), or use Babson Capital Securities LLC, you entrust us not only with your hard-earned assets but also with your personal and financial data. We consider your data to be private and confidential, and protecting its confidentiality is important to us. Our policies and procedures regarding your personal information are summarized below.

We may collect non-public personal information about you from:

Applications or other forms, interviews, or by other means;

Consumer or other reporting agencies, government agencies, employers or others;

Your transactions with us, our affiliates, or others; and

Our Internet website.

We may share the financial information we collect with our financial service affiliates, such as insurance companies, investment companies and securities broker-dealers. Additionally, so that we may continue to offer you products and services that best meet your investment needs and to effect transactions that you request or authorize, we may disclose the information we collect, as described above, to companies that perform administrative or marketing services on our behalf, such as transfer agents, custodian banks, service providers or printers and mailers that assist us in the distribution of investor materials or that provide operational support to Babson Capital entities. These companies are required to protect this information and will use this information only for the services for which we hire them, and are not permitted to use or share this information for any other purpose. Some of these companies may perform such services in jurisdictions other than the United States. We may share some or all of the information we collect with other financial institutions with whom we jointly market products. This may be done only if it is permitted in the state in which you live. Some disclosures may be limited to your name, contact and transaction information with us or our affiliates.

Any disclosures will be only to the extent permitted by federal and state law. Certain disclosures may require us to get an “opt-in” or “opt-out” from you. If this is required, we will do so before information is shared. Otherwise, we do not share any personal information about our customers or former customers unless authorized by the customer or as permitted by law.

We restrict access to personal information about you to those employees who need to know that information to provide products and services to you. We maintain physical, electronic and procedural safeguards that comply with legal standards to guard your personal information. As an added measure, we do not include personal or account information in non-secure e-mails that we send you via the Internet without your prior consent. We advise you not to send such information to us in non-secure e-mails.

This joint notice describes the privacy policies of Babson Capital, the Funds and Babson Capital Securities LLC. It applies to all Babson Capital and the Funds accounts you presently have, or may open in the future, using your social security number or federal taxpayer identification number – whether or not you remain a shareholder of our Funds or as an advisory client of Babson Capital. As mandated by rules issued by the Securities and Exchange Commission, we will be sending you this notice annually, as long as you own shares in the Funds or have an account with Babson

Capital.

Babson Capital Securities LLC is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). Investors may obtain information about SIPC including the SIPC brochure by contacting SIPC online at [www.sipc.org](http://www.sipc.org) or calling (202)-371-8300. Investors may obtain information about FINRA including the FINRA Investor Brochure by contacting FINRA online at [www.finra.org](http://www.finra.org) or calling (800) 289-9999.

---

44

---

Babson Capital Participation Investors

Members of the Board of Trustees

**DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN**

William J. Barrett

Michael H. Brown\*

Barbara M. Ginader

Edward P. Grace III

Robert E. Joyal

Clifford M. Noreen

Susan B. Sweeney\*

Maleyne M. Syracuse\*

\*Member of the Audit Committee

Officers

Clifford M. Noreen  
Chairman

Michael L. Klofas  
President

James M. Roy  
Vice President & Chief  
Financial Officer

Christopher A. DeFrancis  
Vice President, Secretary &  
Chief Legal Officer

Sean Feeley  
Vice President

Richard E. Spencer, II  
Vice President

Daniel J. Florence  
Treasurer

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 than 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., Agent for Babson Capital Participation Investors’ Dividend Reinvestment and Cash Purchase Plan, P.O. Box 219086, Kansas City, MO 64121-9086.

Melissa M. LaGrant  
Chief Compliance Officer

---

---

Babson Capital  
Participation Investors



PI6217

