

BABSON CAPITAL PARTICIPATION INVESTORS
Form N-CSR
March 09, 2012

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-5531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis, Vice President and Secretary
1500 Main Street, Suite 2800, P.O. Box 15189, Springfield, MA 01115-5189

(Name and address of agent for service)

Registrant's telephone number, including area code: 413-226-1000

Date of fiscal year end: 12/31

Date of reporting period: 12/31/11

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection and policymaking roles.

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A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 110 F Street NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORT TO STOCKHOLDERS.

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

BABSON CAPITAL PARTICIPATION INVESTORS

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

INVESTMENT OBJECTIVE & POLICY

Babson Capital Participation Investors (the “Trust”) is a closed-end investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol “MPV”. The Trust’s share price can be found in the financial section 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, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. At least half of these investments normally include equity features such as warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. The Trust will also invest in publicly traded debt securities (including high yield securities), again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. In addition, the Trust may temporarily invest in high quality, readily marketable securities.

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

In this report you will find a complete listing of the Trust’s holdings. We encourage you to read this section carefully for a better understanding of the Trust. We cordially invite all shareholders to attend the Trust’s Annual Meeting of Shareholders, which will be held on April 27, 2012 at 1:00 P.M. in Springfield, Massachusetts.

Babson Capital Participation Investors

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

2011 Annual Report

TO OUR SHAREHOLDERS

I am pleased to share with you the Trust's Annual Report for the year ended December 31, 2011.

As I am sure you have noticed, in December, we changed the name of the Trust from MassMutual Participation Investors to Babson Capital Participation Investors. The name change was made to clarify the Trust's relationship with the Trust's investment adviser, Babson Capital. Babson Capital, and its predecessors, has been the investment adviser for the Trust since the Trust's inception in 1988, and will continue in this capacity. Other than the name of the Trust, nothing else has changed – the Trust's investment objectives, philosophies and policies are unchanged; even the Trust's New York Stock Exchange trading symbol, "MPV", is unchanged.

PORTFOLIO PERFORMANCE

The Trust's net total portfolio rate of return for 2011 was 10.6%, as measured by the change in net asset value and assuming the reinvestment of all dividends and distributions. The Trust's total net assets were \$120,319,666, or \$11.90 per share, as of December 31, 2011. This compares to \$119,540,235, or \$11.89 per share, as of December 31, 2010. The Trust paid a quarterly dividend of \$0.27 per share for each of the four quarters of 2011, up 8.0% from the \$0.25 per share quarterly dividend in 2010. In addition, the Trust declared a special year-end dividend of \$0.15 per share, paid in January 2012 to shareholders of record on December 30, 2011, bringing total dividends for the year to \$1.23 per share. This represents a 23% increase over the \$1.00 per share of total dividends paid in 2010. Net investment income for the year was \$1.14 per share, including approximately \$0.12 per share of non-recurring income, representing an 11.8% increase over 2010 net investment income of \$1.02 per share, which also included approximately \$0.04 per share of non-recurring income.

Investors continued to take note of the Trust's strong performance in 2011 as the Trust's stock price increased 14.2% during the year, from \$13.88 as of December 31, 2010 to \$15.85 as of December 31, 2011. This increase is on top of the 13.8% price appreciation that the Trust's stock price enjoyed in 2010. The Trust's stock price of \$15.85 as of December 31, 2011 equates to a 33.2% premium over the December 31, 2011 net asset value per share of \$11.90. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 8.0%, 8.9% and 9.3%, respectively.

The table below lists the average annual net returns of the Trust's portfolio, based on the change in net assets and assuming the reinvestment of all dividends and distributions. Average annual returns of the Barclays Capital U.S. Corporate High Yield Index and the Russell 2000 Index for the 1, 3, 5 and 10 years ended December 31, 2011 are provided for comparison purposes only.

	The Trust	Barclays Capital U.S. Corporate High Yield Index	Russell 2000 Index
1 Year	10.56%	4.98%	-4.17%
3 Years	12.20%	24.12%	15.63%
5 Years	7.85%	7.54%	0.15%
10 Years	13.25%	8.85%	5.62%

Past performance is no guarantee of future results.

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Babson Capital Participation Investors

PORTFOLIO ACTIVITY

New investment activity for the Trust was very sporadic once again in 2011. In the first three quarters of the year, the Trust completed six new private placement investments. In the fourth quarter, the Trust completed seven new investments. For the full year 2011, the Trust closed 13 new private placement investments and seven add-on investments in existing portfolio companies. Total private placement investments purchased in 2011 were \$12,396,081. Although our investment activity in 2011 was off the near-record pace of 2010, when the Trust closed 19 new private placement transactions and eight add-on investments aggregating \$18,434,897, we were pleased with both the quantity and quality of our 2011 investments. Leverage multiples remained reasonable overall during 2011, and pricing and return expectations on our new investments were stable throughout the year, after several years of declines. All in all, market conditions in 2011 continued to be favorable for new investment activity.

New private placement investments completed during 2011 were Arch Global Precision LLC; CHG Alternative Education Holding Company; DPC Holdings LLC; Handi Quilter Holding Company; Ideal Tridon Holdings, Inc.; K & N Parent, Inc.; LPC Holding Company; Marshall Physicians Services LLC; Merex Holding Corporation; NT Holding Company; SouthernCare Holdings, Inc.; Strata/WLA Holding Corporation and WP Supply Holding Corporation. In addition, the Trust added to existing private placement investments in Advanced Technologies Holdings; K N B Holdings Corporation; K W P I Holdings Corporation; MBWS Ultimate Holdco, Inc.; NetShape Technologies, Inc.; NT Holding Company; and TruStile Doors, Inc. A brief description of these investments can be found in the Consolidated Schedule of Investments.

The condition of the Trust's existing portfolio continued to improve during 2011. Sales and earnings for the Trust's portfolio as a whole continued their upward momentum - we now have seen 22 consecutive months of increases in the average sales and EBITDA of our portfolio companies since hitting trough levels in late 2009. During the year, a number of our portfolio companies resumed paying cash interest on their debt obligations to the Trust due to their improved operating performance and liquidity position. Patience and, in many cases, additional equity support from the sponsor groups, sometimes coupled with the temporary deferral of interest on our debt obligations, have proven to be the right approach to helping these companies rebound.

We had eight companies exit from the Trust's portfolio during 2011. In six of these exits, the Trust realized a significant positive return on its investment. These investments were Davis Standard LLC; KHOF Holdings, Inc.; Justrite Manufacturing Acquisition Company; Momentum Holding Company; Nesco Holding Corporation; and Total E & S Inc. We also realized on our investments in Navis Global and Telecorps Holdings, Inc., both of which were underperforming investments. In addition, we had a number of companies who took advantage of lower interest rates and improved operating performance to refinance and repay their debt obligations to the Trust.

OUTLOOK FOR 2012

We enter 2012 with a solid backlog of new investment opportunities. We also expect that leverage multiples and expected returns on new investments will continue to be stable during the year. We have a significant number of portfolio companies that are in various stages of a sale process. One exit has already closed in January - Savage Sports Holding, Inc. was sold for a nice gain near the end of the month, and we expect that realization activity will be very strong in 2012. Strong realization and refinancing activity is a double-edged sword, however, as that could result in a loss of income-producing investments. We have been fortunate that our new investment activity in recent years has been strong and has had a positive impact on net investment income. We will need to maintain a robust level of new investment activity in the face of expected high levels of realization and refinancing activity.

2011 Annual Report

The Trust weathered the difficult markets of 2008 and early 2009 well, and was able to maintain its dividend level. With improving market conditions in 2010 and 2011, the Trust was able to increase its dividend by 23% in 2011 over the prior year. Despite the unsettled global economic conditions and other challenges, we are optimistic heading into 2012. Regardless of the market environment, however, the Trust will continue to employ the investment philosophy that has served it well since its inception: investing in companies which we believe have a strong business proposition, solid cash flow and experienced, ethical management. This philosophy, along with Babson Capital's seasoned investment-management team, positions the Trust well to meet its investment objectives and policies. As always, I would like to thank you for your continued interest in and support of Babson Capital Participation Investors. I look forward to seeing you at the Trust's annual shareholder meeting in Springfield on April 27, 2012.

Sincerely,

Michael L. Klofas
President

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

2011 dividends Regular	Record date	Net Investment Income	Short-Term Gains	Tax Effect	Long-Term Gains
	4/25/2011	0.2700	-		-
	8/1/2011	0.2700	-		-
	10/31/2011	0.2700	-		-
	12/30/2011	0.2700	-		-
Special	12/30/2011	0.1475	0.0025		-
		\$ 1.2275	\$ 0.0025	\$1.2300	0.0000

The following table summarizes the tax effects of the relation of capital gains for 2011:

	Amount Per share	Form 2439
2011 Gains Retained	0.0837	Line 1a
Long-Term Gains Retained	0.0837	
Taxes Paid	0.0293	Line 2 *
Basis Adjustment	0.0544	**

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

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

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Annual dividend Amount Per Share	Qualified for Dividend Received deduction***		Qualified Dividends****		Interest Earned on U.S. Gov't. Obligations	
	Percent	Amount Per Share	Percent	Amount Per Share	Percent	Amount Per Share
\$1.23	5.1246%	0.0629	4.4150%	0.0542	0%	0.0000

*** Not available to individual shareholders

**** Qualified dividends are reported in Box 1b on IRS Form 1099-Div for 2011

Babson Capital Participation Investors

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Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

December 31, 2011

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$117,020,358)	\$ 106,928,715
Corporate restricted securities at market value (Cost - \$4,238,555)	4,215,617
Corporate public securities at market value (Cost - \$14,436,954)	14,899,606
Short-term securities at amortized cost	7,999,024
Total investments (Cost - \$143,694,891)	134,042,962
Cash	5,132,700
Interest receivable	1,278,147
Other assets	119,260
 Total assets	 140,573,069

Liabilities:

Note payable	15,000,000
Dividend payable	4,246,992
Deferred tax liability	502,128
Investment advisory fee payable	270,719
Interest payable	30,675
Accrued expenses	202,889
 Total liabilities	 20,253,403
 Total net assets	 \$ 120,319,666

Net Assets:

Common shares, par value \$.01 per share	\$ 101,119
Additional paid-in capital	94,046,595
Retained net realized gain on investments, prior years	33,183,269
Undistributed net investment income	1,259,710
Accumulated net realized gain on investments	1,883,030
Net unrealized depreciation of investments	(10,154,057)
Total net assets	\$ 120,319,666
Common shares issued and outstanding (14,785,750 authorized)	10,111,886
Net asset value per share	\$ 11.90

See Notes to Consolidated Financial Statements

2011 Annual Report

CONSOLIDATED STATEMENT OF OPERATIONS
 For the year ended December 31, 2011

Investment Income:	
Interest	\$ 13,676,440
Dividends	236,104
Other	58,946
 Total investment income	 13,971,490
Expenses:	
Investment advisory fees	1,117,595
Interest	691,875
Trustees' fees and expenses	257,425
Professional fees	206,700
Reports to shareholders	80,000
Transfer agent	45,400
Custodian fees	31,000
Other	14,523
 Total expenses	 2,444,518
 Investment income - net	 11,526,972
Net Realized And Unrealized Gain On Investments:	
Net realized gain on investments before taxes	873,131
Income tax expense	(245,790)
Net realized gain on investments after taxes	627,341
Net change in unrealized depreciation of investments before taxes	403,905
Net change in deferred income tax expense	(237,663)
Net change in unrealized depreciation of investments after taxes	166,242
Net gain on investments	793,583
Net increase in net assets resulting from operations	\$ 12,320,555

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2011

Net increase in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$ 2,076,123
Purchases of portfolio securities	(28,080,985)
Proceeds from disposition of portfolio securities	27,034,051
Interest, dividends and other income received	10,778,076
Interest expense paid	(750,133)
Operating expenses paid	(1,740,091)
Income taxes paid	(709,115)

Net cash provided by operating activities	8,607,926
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Cash flows from financing activities:

Proceeds from increase in note payable	3,000,000
Cash dividends paid from net investment income	(10,678,279)
Receipts for shares issued on reinvestment of dividends	871,579

Net cash used for financing activities	(6,806,700)
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Net increase in cash	1,801,226
Cash - beginning of year	3,331,474
Cash - end of year	\$ 5,132,700

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

Net increase in net assets resulting from operations	\$ 12,320,555
Increase in investments	(3,373,684)
Decrease in interest receivable	51,683
Increase in other assets	(119,260)
Increase in deferred tax liability	237,663
Increase in investment advisory fee payable	2,127
Decrease in interest payable	(58,258)
Increase in accrued expenses	27,553
Decrease in accrued taxes payable	(463,325)
Decrease in other payables	(17,128)
Total adjustments to net assets from operations	(3,712,629)

Net cash provided by operating activities	\$ 8,607,926
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See Notes to Consolidated Financial Statements

2011 Annual Report

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
 For the years ended December 31, 2011 and 2010

	2011	2010
Increase in net assets:		
Operations:		
Investment income - net	\$11,526,972	\$10,266,428
Net realized gain on investments after taxes	627,341	1,179,654
Net change in unrealized depreciation of investments after taxes	166,242	8,365,960
Net increase in net assets resulting from operations	12,320,555	19,812,042
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2011 - 61,615; 2010 - 67,032)	871,579	828,922
Dividends to shareholders from:		
Net investment income (2011 - \$1.23 per share; 2010 - \$1.00 per share)	(12,387,295)	(10,026,104)
Net realized gains (2011 - \$0.00 per share; 2010 - \$0.00 per share)	(25,408)	-
Total increase in net assets	779,431	10,614,860
Net assets, beginning of year	119,540,235	108,925,375
Net assets, end of year (including undistributed net investment income of \$1,259,710 and \$1,608,268 respectively)	\$120,319,666	\$119,540,235

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 years ended December 31,				
	2011	2010	2009	2008	2007
Net asset value:					
Beginning of year	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84	\$ 12.90
Net investment income (a)	1.14	1.02	0.94	1.08	1.23
Net realized and unrealized gain (loss) on investments	0.08	0.95	(0.13)	(1.82)	(0.05)
Total from investment operations	1.22	1.97	(0.81)	(0.74)	1.18
Dividends from net investment income to common shareholders	(1.23)	(1.00)	(1.00)	(1.00)	(1.23)
Dividends from net realized gain on investments to common shareholders	(0.00) (b)	-	-	-	(0.02)
Increase from dividends reinvested	0.02	0.01	0.00 (b)	0.00 (b)	0.01
Total dividends	(1.21)	(0.99)	(1.00)	(1.00)	(1.24)
Net asset value: End of year	\$ 11.90	\$ 11.89	\$ 10.91	\$ 11.10	\$ 12.84
Per share market value:					
End of year	\$ 15.85	\$ 13.88	\$ 12.20	\$ 9.05	\$ 13.18
Total investment return					
Net asset value (c)	10.56 %	18.71 %	7.60 %	(6.01 %)	9.95 %
Market value (c)	24.16 %	22.94 %	40.86 %	(25.36 %)	(1.30 %)
Net assets (in millions):					
End of year	\$ 120.32	\$ 119.54	\$ 108.93	\$ 110.18	\$ 126.63
Ratio of operating expenses to average net assets	1.42 %	1.46 %	1.41 %	1.33 %	1.36 %
Ratio of interest expense to average net assets	0.56 %	0.61 %	0.63 %	0.58 %	0.56 %
Ratio of income tax expense to average net assets (d)	0.20 %	0.46 %	0.00 %	0.00 %	0.48 %
Ratio of total expenses to average net assets (d)	2.18 %	2.53 %	2.04 %	1.91 %	2.40 %
Ratio of net investment income to average net assets	9.33 %	8.96 %	8.55 %	8.74 %	9.32 %
Portfolio turnover	21 %	27 %	23 %	32 %	33 %

(a) Calculated using average shares.

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

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

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

Senior borrowings:

Total principal amount (in millions)	\$15	\$12	\$12	\$12	\$12
Asset coverage per \$1,000 of indebtedness	\$9,021	\$10,962	\$10,077	\$10,181	\$11,552

See Notes to Consolidated Financial Statements

2011 Annual Report

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2011

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 92.37%: (A)				
Private Placement Investments - 88.87%				
A E Company, Inc.				
A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.				
11% Senior Secured Note due 2015	\$715,384	*	\$705,109	\$736,277
13% Senior Subordinated Note due 2016	\$807,693	11/10/09	740,181	823,847
Common Stock (B)	184,615 shs.	11/10/09	184,615	114,345
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566	57,173
* 11/10/09 and 11/18/09.			1,698,471	1,731,642
A H C Holding Company, Inc.				
A designer and manufacturer of boilers and water heaters for the commercial sector.				
15% Senior Subordinated Note due 2015	\$ 1,394,360	11/21/07	1,377,118	1,394,360
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009	184,704
			1,496,127	1,579,064
A S A P Industries LLC				
A designer and manufacturer of components used on oil and natural gas wells.				
12.5% Senior Subordinated Note due 2015	\$ 450,500	12/31/08	409,273	450,500
Limited Liability Company Unit Class A-2 (B)	676 uts.	12/31/08	74,333	259,312
Limited Liability Company Unit Class A-3 (B)	608 uts.	12/31/08	66,899	233,382
			550,505	943,194
A S C Group, Inc.				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
12.75% Senior Subordinated Note due 2016	\$ 1,227,273	10/09/09	1,088,464	1,239,546
Limited Liability Company Unit Class A (B)	2,186 uts.	*	214,793	308,707
Limited Liability Company Unit Class B (B)	1,473 uts.	10/09/09	144,716	208,017

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* 10/09/09 and 10/27/10. 1,447,973 1,756,270

A W X Holdings Corporation

A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.

10.5% Senior Secured Term Note due 2014 (D)	\$420,000	05/15/08	413,944	378,000
13% Senior Subordinated Note due 2015 (D)	\$420,000	05/15/08	384,627	-
Common Stock (B)	60,000 shs.	05/15/08	60,000	-
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	-
			894,225	378,000

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities: (A)(Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Advanced Technologies Holdings				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	546 shs.	12/27/07	\$ 270,000	\$ 597,020
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	30,407
			291,600	627,427
Aero Holdings, Inc.				
A provider of geospatial services to corporate and government clients.				
10.5% Senior Secured Term Note due 2014	\$ 697,500	03/09/07	693,367	708,057
14% Senior Subordinated Note due 2015	\$ 720,000	03/09/07	676,704	720,000
Common Stock (B)	150,000 shs.	03/09/07	150,000	246,221
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	37,780 shs.	03/09/07	63,730	62,015
			1,583,801	1,736,293
All Current Holding Company				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$ 603,697	09/26/08	567,503	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	67,310
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	47,862
			685,390	718,869
American Hospice Management Holding LLC				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$ 1,687,503	*	1,653,472	1,687,503
Preferred Class A Unit (B)	1,706 uts.	**	170,600	316,433
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	143,534
Common Class B Unit (B)	16,100 uts.	01/22/04	1	74,823
Common Class D Unit (B)	3,690 uts.	09/12/06	-	17,149
			1,904,862	2,239,442
* 01/22/04 and 06/09/08.				
** 01/22/04 and 09/12/06.				
Apex Analytix Holding Corporation				
A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe.				

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12.5% Senior Subordinated Note due 2014	\$ 1,012,500	04/28/09	905,576	1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	210,508
Common Stock (B)	723 shs.	04/28/09	723	93,821
			1,068,568	1,316,829

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities : (A)(Continued)		Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Arch Global Precision LLC					
A leading manufacturer of high tolerance precision components and consumable tools.					
14.75% Senior Subordinated Note due 2018	\$ 750,000		12/21/11	\$ 730,049	\$ 752,596
Limited Liability Company Unit Class B (B)	28 uts.		12/21/11	28,418	26,999
Limited Liability Company Unit Class C (B)	222 uts.		12/21/11	221,582	210,501
				980,049	990,096
Arrow Tru-Line Holdings, Inc.					
A manufacturer of hardware for residential and commercial overhead garage doors in North America.					
8% Senior Subordinated Note due 2014 (D)		\$ 1,054,025	05/18/05	964,526	685,116
Preferred Stock (B)		33 shs.	10/16/09	33,224	-
Common Stock (B)		263 shs.	05/18/05	263,298	-
Warrant, exercisable until 2012, to purchase common stock at \$.01 per share (B)		69 shs.	05/18/05	59,362	-
				1,320,410	685,116
Associated Diversified Services					
A provider of routine maintenance and repair services primarily to electric utility companies predominantly on electric power distribution lines.					
10% Senior Secured Term Note due 2016 (C)	\$ 292,000		09/30/10	285,874	301,328
13% Senior Subordinated Note due 2017	\$ 332,000		09/30/10	300,138	335,320
Limited Liability Company Unit Class B (B)	36,000 uts.		09/30/10	36,000	37,645
Limited Liability Company Unit Class B (B)	27,520 uts.		09/30/10	27,520	28,778
				649,532	703,071
Barcodes Group, Inc.					
A distributor and reseller of automatic identification and data capture equipment, including mobile computers, scanners, point-of-sale systems, labels, and accessories.					
13.5% Senior Subordinated Note due 2016		\$ 646,800	07/27/10	620,092	659,736
Preferred Stock (B)		13 shs.	07/27/10	131,496	131,500
Common Stock Class A (B)		44 shs.	07/27/10	437	74,466
Warrant, exercisable until 2020, to purchase					

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common stock at \$.01 per share (B)		8 shs.	07/27/10	76	12,922
				752,101	878,624

Bravo Sports Holding Corporation

A designer and marketer of niche branded consumer products including canopies, trampolines, in-line skates, skateboards, and urethane wheels.

12.5% Senior Subordinated Note due

2014	\$ 1,207,902		06/30/06	1,176,308	603,951
Preferred Stock Class A (B)	465 shs.		06/30/06	141,946	-
Common Stock (B)	1 sh.		06/30/06	152	-
Warrant, exercisable until 2014, to purchase					
common stock at \$.01 per share (B)	164 shs.		06/30/06	48,760	-
				1,367,166	603,951

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities: (A)(Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
C D N T, Inc.				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
10.5% Senior Secured Term Note due 2014	\$268,169	08/07/08	\$265,435	\$268,169
12.5% Senior Subordinated Note due 2015	\$429,070	08/07/08	402,674	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	36,499
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965	28,698
			742,934	762,436
Capital Specialty Plastics, Inc.				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	595,089
*12/30/97 and 05/29/99.				
CHG Alternative Education Holding Company				
A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs.				
13.5% Senior Subordinated Note due 2018	\$ 722,827	01/19/11	683,848	727,579
Common Stock (B)	375 shs.	01/19/11	37,500	34,165
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250	26,856
			750,598	788,600
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
12.25% Senior Subordinated Note due 2015	\$1,270,588	12/02/08	1,208,232	1,270,588
Preferred Stock (B)	147 shs.	12/02/08	146,594	174,651
			1,354,826	1,445,239
Coeur, Inc.				
A producer of proprietary, disposable power injection syringes.				
12% Senior Subordinated Note due 2016	\$642,857	10/10/08	598,809	642,857

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Common Stock (B)	321 shs.	10/10/08	32,143	17,631
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	495 shs.	10/10/08	48,214	27,124
			679,166	687,612

Connecticut Electric, Inc.

A supplier and distributor of electrical products sold into the retail and wholesale markets.

10% Senior Subordinated Note due 2014

(D)	\$ 771,051	01/12/07	719,299	693,946
Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	82,613	10,228
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	7,398
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	83,140
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	137
			861,668	794,849

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 840,882
Preferred Stock Series C (B)	4,757 shs.	07/05/07	158,912	440,509
Common Stock (B)	380 shs.	07/05/07	4	-
Limited Partnership Interest (B)	6.88% int.	*	103,135	-
*08/12/04 and 01/14/05.			632,847	1,281,391
CorePharma LLC				
A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.				
14.5% Senior Subordinated Note due 2016	\$ 1,390,798	08/04/05	1,390,799	1,390,798
Warrant, exercisable until 2013, to purchase common stock at \$.001 per share (B)	10 shs.	08/04/05	72,617	295,830
			1,463,416	1,686,628
Crane Rental Corporation				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	\$ 1,215,000	08/21/08	1,132,401	1,165,929
Common Stock (B)	135,000 shs.	08/21/08	135,000	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	72,037 shs.	08/21/08		103,143
			1,370,544	1,165,929
Custom Engineered Wheels, Inc.				
A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs.				
12.5% Senior Subordinated Note due 2016	\$ 1,155,288	10/27/09	1,033,684	1,134,865
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	51,634
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	37,724
Common Stock (B)	38 shs.	10/27/09	38,244	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735	
			1,358,505	1,224,223
DPC Holdings LLC				
A provider of accounts receivable management and revenue cycle management services to customers in the healthcare, financial and utility industries.				
14% Senior Subordinated Note due 2017	\$ 892,346	10/21/11	874,951	894,099
Limited Liability Company Unit Class A (B)	11,111 uts.	10/21/11	111,111	105,555

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Duncan Systems, Inc.				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2013	\$ 154,286	11/01/06	\$ 153,515	\$ 155,158
13% Senior Subordinated Note due 2014	\$ 488,572	11/01/06	461,558	488,572
Common Stock (B)	102,857 shs.	11/01/06	102,857	35,078
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	44,663	11,014
			762,593	689,822
E S P Holdco, Inc.				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
14% Senior Subordinated Note due 2015	\$ 1,272,510	01/08/08	1,257,047	1,272,510
Common Stock (B)	349 shs.	01/08/08	174,701	155,849
			1,431,748	1,428,359
E X C Acquisition Corporation				
A manufacturer of pre-filled syringes and pump systems used for intravenous drug delivery.				
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	11 shs.	06/28/04	40,875	43,059
Eatem Holding Company				
A developer and manufacturer of savory flavor systems for soups, sauces, gravies, and other products produced by food manufacturers for retail and foodservice end products.				
12.5% Senior Subordinated Note due 2018	\$ 950,000	02/01/10	841,922	908,429
Common Stock (B)	50 shs.	02/01/10	50,000	42,894
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	119 shs.	02/01/10	107,100	102,278
			999,022	1,053,601

F C X Holdings Corporation

A distributor of specialty/technical valves, actuators, accessories, and process instrumentation supplying a number of industrial, high purity, and energy end markets in North America.

15% Senior Subordinated

Note due 2015	\$ 1,232,167	10/06/08	1,217,672	1,232,167
Preferred Stock Series A (B)	232 shs.	*	23,200	30,422
Preferred Stock Series B (B)	2,298 shs.	10/06/08	229,804	301,334
Common Stock (B)	1,625 shs.	10/06/08	1,625	28,111
* 12/30/10 and 07/01/11.			1,472,301	1,592,034

F F C Holding Corporation

A leading U.S. manufacturer of private label frozen novelty and ice cream products.

16% Senior Subordinated

Note due 2017	\$ 866,523	09/27/10	851,857	883,853
Limited Liability Company Units Preferred (B)	171 uts.	09/27/10	153,659	166,616
Limited Liability Company Units (B)	171 uts.	09/27/10	17,073	59,831
			1,022,589	1,110,300

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
F G I Equity LLC				
A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings.				
14.25% Senior Subordinated				
Note due 2016	\$ 442,309	12/15/10	\$ 431,329	\$ 451,155
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	104,557
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	13,109
			505,366	568,821
F H Equity LLC				
A designer and manufacturer of a full line of automatic transmission filters and filtration systems for passenger vehicles.				
14% Senior Subordinated Note				
due 2017	\$ 510,527	12/20/10	491,612	519,665
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	15,650
			507,621	535,315
Flutes, Inc.				
An independent manufacturer of micro fluted corrugated sheet material for the food and consumer products packaging industries.				
10% Senior Secured Term Note				
due 2013 (D)	\$ 524,791	04/13/06	519,050	262,396
14% Senior Subordinated Note				
due 2013 (D)	\$ 317,177	04/13/06	809,958	290,908
				262,396
G C Holdings				
A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.				
12.5% Senior Subordinated				
Note due 2017	\$ 1,000,000	10/19/10	940,506	1,020,000
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	46,958	20,187
			987,464	1,040,187

Golden County Foods Holding,
Inc.

A manufacturer of frozen
appetizers and snacks.

16% Senior Subordinated Note due 2015 (D)	\$ 1,012,500	11/01/07	938,215	-
14% PIK Note due 2015 (D)	250,259	12/31/08	217,699	-
8% Series A Convertible Preferred Stock, convertible into common shares (B)	151,643 shs.	11/01/07	77,643	-
			1,233,557	-

H M Holding Company

A designer, manufacturer, and
importer of promotional and
wood furniture.