

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

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number 811-5531

Babson Capital Participation Investors

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(Exact name of registrant as specified in charter)

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

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(Address of principal executive offices) (Zip code)

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

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(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 12/31/11

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.

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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## 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

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

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## 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

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## 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.

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## 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

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**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

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**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

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## 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

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## 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
<b>Advanced Technologies Holdings</b>				
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
<b>Aero Holdings, Inc.</b>				
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
<b>All Current Holding Company</b>				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$ 603,697	09/26/08	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
<b>American Hospice Management Holding LLC</b>				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$ 1,687,503	*	1,653,472	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.				
<b>Apex Analytix Holding Corporation</b>				
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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## 2011 Annual Report

## 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
<b>Arch Global Precision LLC</b>					
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
<b>Arrow Tru-Line Holdings, Inc.</b>					
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
<b>Associated Diversified Services</b>					
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
<b>Barcodes Group, Inc.</b>					
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
<b>C D N T, Inc.</b>				
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
<b>Capital Specialty Plastics, Inc.</b>				
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.				
<b>CHG Alternative Education Holding Company</b>				
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
<b>Clough, Harbour and Associates</b>				
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
<b>Coeur, Inc.</b>				
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

## 2011 Annual Report

## 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
<b>Connor Sport Court International, Inc.</b>				
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
<b>CorePharma LLC</b>				
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
<b>Crane Rental Corporation</b>				
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
<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.				
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
<b>DPC Holdings LLC</b>				
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
<b>Duncan Systems, Inc.</b>				
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
<b>E S P Holdco, Inc.</b>				
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
<b>E X C Acquisition Corporation</b>				
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
<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	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

## 2011 Annual Report

## 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
<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.				
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
<b>F H Equity LLC</b>				
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
<b>Flutes, Inc.</b>				
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
<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.				
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

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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.

7.5% Senior Subordinated Note due 2014 (D)	\$ 362,700	10/15/09	271,181	181,350
Preferred Stock (B)	21 shs.	*	21,428	-
Preferred Stock Series B (B)	1,088 shs.	10/15/09	813,544	-
Common Stock (B)	180 shs.	02/10/06	180,000	-
Common Stock Class C (B)	296 shs.	10/15/09	-	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	67 shs.	02/10/06	61,875	-
* 09/18/07 and 06/27/08.			1,348,028	181,350

## 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
<b>Handi Quilter Holding Company</b>				
A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.				
12% Senior Subordinated Note due 2017	\$ 461,539	11/14/11	\$ 427,241	\$ 465,016
Common Stock (B)	38 shs.	11/14/11	38,461	36,537
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	28 shs.	11/14/11		25,596
			491,271	501,553
<b>Home Décor Holding Company</b>				
A designer, manufacturer and marketer of framed art and wall décor products.				
Common Stock (B)	33 shs.	*	33,216	62,056
Warrant, exercisable until 2012, to purchase common stock at \$.02 per share (B)	106 shs.	*	105,618	197,301
* 06/30/04 and 08/19/04.			138,834	259,357
<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	-	-
			-	-
<b>Hospitality Mints Holding Company</b>				
A manufacturer of individually-wrapped imprinted promotional mints.				
12% Senior Subordinated Note due 2016	\$ 1,415,237	08/19/08	1,349,414	1,344,475
Common Stock (B)	251 shs.	08/19/08	251,163	9,593
Warrant, exercisable until 2016, to purchase				

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common stock at \$.01 per share (B)	65 shs.	08/19/08	60,233	2,479
			1,660,810	1,356,547

Ideal Tridon Holdings, Inc.

A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.

13.5% Senior Subordinated Note

due 2018	\$ 909,603	10/27/11	891,753	912,847
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Common Stock (B)	93 shs.	10/27/11	92,854	88,208
			984,607	1,001,055

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	222,492
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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
<b>International Offshore Services LLC</b>				
A leading provider of marine transportation services, platform decommissioning, and salvage services to oil and gas producers in the shallow waters of the Gulf of Mexico.				
14.25% Senior Subordinated Secured				
Note due 2017 (D)	\$ 1,350,000	07/07/09	\$ 1,236,405	\$ 675,000
Limited Liability Company Unit (B)	1,647 uts.	07/07/09	98,833	-
			1,335,238	675,000
<b>J A C Holding Enterprises, Inc.</b>				
12.5% Senior Subordinated Note due 2017				
Preferred Stock A (B)	\$ 833,333	12/20/10	721,760	755,247
Preferred Stock B (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	-
			994,070	755,247
<b>Jason Partners Holdings LLC</b>				
A diversified manufacturing company serving various industrial markets.				
Limited Liability Company Unit (B)	48 uts.	09/21/10	449,086	25,511
<b>K &amp; N Parent, Inc.</b>				
A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.				
14% Senior Subordinated Note due 2017				
Preferred Stock Series A (B)	869,565	12/23/11	852,210	874,183
Preferred Stock Series B (B)	102 shs.	12/23/11	96,578	91,748
Common Stock (B)	28.77 shs.	12/23/11	27,335	25,966
	130 shs.	12/23/11	6,522	4,957
			982,645	996,854
<b>K N B Holdings Corporation</b>				
A designer, manufacturer and marketer of products for the custom framing market.				
15% Senior Subordinated Note due 2017				
Common Stock (B)	\$ 2,169,317	04/12/11	1,990,106	2,169,317
	71,053 shs.	05/25/06	71,053	25,476



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Warrant, exercisable until 2013, to  
purchase

common stock at \$.01 per share (B)	43,600 shs.	05/25/06	37,871	15,633
			2,099,030	2,210,426

K P H I Holdings, Inc.

A manufacturer of highly engineered plastic and metal components for a diverse range of end-markets, including medical, consumer and industrial, automotive and defense.

15% Senior Subordinated Note due

2017	\$ 892,739	12/10/10	876,816	894,129
Common Stock (B)	232,826 shs.	12/10/10	232,826	111,187
			1,109,642	1,005,316

## 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
<b>K P I Holdings, Inc.</b>				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
12.75% Senior Subordinated Note due 2015	\$ 1,301,869	07/16/08	\$ 1,226,680	\$ 1,236,776
Convertible Preferred Stock Series C (B)	29 shs.	06/30/09	29,348	58,000
Convertible Preferred Stock Series D (B)	13 shs.	09/17/09	12,958	38,880
Common Stock (B)	235 shs.	07/15/08	234,783	17,260
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	3,737
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	-	4,955
			1,554,605	1,359,608
<b>K W P I Holdings Corporation</b>				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
12% Senior Subordinated Note due 2015 (D)	\$ 1,674,246	03/14/07	1,523,455	1,339,397
Preferred Stock PIK (B)	793 shs.	02/07/11	306,750	230,000
Common Stock (B)	123 shs.	03/13/07	123,000	-
Warrant, exercisable until 2019, to purchase preferred stock at \$.01 per share (B)	71 shs.	07/07/09	-	-
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)	89 shs.	03/14/07	85,890	-
			2,039,095	1,569,397
<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.				

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13.5% Senior Subordinated

Note due 2018	\$ 907,434	08/15/11	889,975	927,127
Common Stock (B)	94 shs.	08/15/11	94,340	112,654
			984,315	1,039,781

M V I Holding, Inc.

A manufacturer of large precision machined metal components used in equipment which services a variety of industries, including the oil and gas, mining, and defense markets.

13% Senior Subordinated

Note due 2016	\$ 667,711	09/12/08	632,520	667,711
Common Stock (B)	32 shs.	09/12/08	32,143	26,870
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	09/12/08	34,714	29,018
			699,377	723,599

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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
<b>Mail Communications Group, Inc.</b>				
A provider of mail processing and handling services, lettershop services, and commercial printing services.				
12.5% Senior Subordinated Note due 2014	\$ 516,177	05/04/07	\$ 501,470	\$ 516,177
Limited Liability Company Unit (B) Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B) * 05/04/07 and 01/02/08.	12,764 uts.  1,787 shs.	 *  05/04/07	 166,481  22,781 690,732	 210,841  29,520 756,538
<b>Manhattan Beachwear Holding Company</b>				
A designer and distributor of women's swimwear.				
12.5% Senior Subordinated Note due 2018	\$ 419,971	01/15/10	374,421	419,971
15% Senior Subordinated Note due 2018	\$ 105,625	10/05/10	103,732	105,625
Common Stock (B)	35 shs.	10/05/10	35,400	89,219
Common Stock Class B (B)	118 shs.	01/15/10	117,647	296,513
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	01/15/10	94,579 725,779	262,413 1,173,741
<b>Marshall Physicians Services LLC</b>				
A provider of emergency department and hospital medicine services to hospitals located in the state of Kentucky. The Company was founded in 1999 and is owned by seven practicing physicians.				
13% Senior Subordinated Note due 2016	\$ 441,222	09/20/11	432,656	446,172
Limited Liability Company Unit Class A (B)	2,900 uts.	09/20/11	60,000	57,093
Limited Liability Company Unit Class D (B)	291 uts.	09/20/11	-	5,738
			492,656	509,003
<b>MBWS Ultimate Holdco, Inc.</b>				
A provider of services throughout North Dakota that address the fluid management and related transportation needs of an oil well.				
	\$ 1,117,495	*	1,024,347	1,139,845

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12% Senior Subordinated Note due  
2016

Preferred Stock Series A (B)	1,388 shs.	09/07/10	138,797	495,362
Common Stock (B)	162 shs.	03/01/11	16,226	57,816
Common Stock (B)	153 shs.	09/07/10	15,282	54,604
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	103 shs.	03/01/11	10,325	36,760
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	386 shs.	09/07/10	38,623	137,759
* 09/07/10 and 03/01/11.			1,243,600	1,922,146

## 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
<b>MedSystems Holdings LLC</b>				
A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.				
13% Senior Subordinated				
Note due 2015	\$ 628,474	08/29/08	\$ 577,233	\$ 628,474
Preferred Unit (B)	66 uts.	08/29/08	66,451	84,866
Common Unit Class A (B)	671 uts.	08/29/08	671	23,577
Common Unit Class B (B)	250 uts.	08/29/08	63,564	8,773
			707,919	745,690
<b>MEGTEC Holdings, Inc.</b>				
A supplier of industrial and environmental products and services to a broad array of industries.				
Preferred Stock (B)	56 shs.	09/24/08	54,040	72,797
Limited Partnership Interest (B)	0.74% int.	09/16/08	205,932	272,590
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	18 shs.	09/24/08	18,237	28,618
			278,209	374,005
<b>Merex Holding Corporation</b>				
A provider of after-market spare parts and components, as well as Maintenance, Repair and Overhaul services for "out of production" or "legacy" aerospace and defense systems that are no longer effectively supported by the original equipment manufacturers.				
14% Senior Subordinated				
Note due 2018	\$ 367,924	09/22/11	360,760	371,573
Limited Liability Company Unit Series B (B)	132,076 uts.	09/22/11	132,076	102,583
			492,836	474,156
<b>MicroGroup, Inc.</b>				
A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.				
12% Senior Subordinated				
Note due 2013 (D)	\$ 1,421,795	*	1,364,411	355,449
Common Stock (B)	238 shs.	*	238,000	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	87 shs.	*	86,281	-

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\*08/12/05 and 09/11/06.

1,688,692

355,449

Milwaukee Gear Company

A manufacturer of high-precision custom gears and gear drives used by original equipment manufacturers operating in a number of industries.

13% Senior Subordinated

Note due 2014	\$	1,246,154	07/21/08	1,205,930	1,246,154
Preferred Stock (B)		139 shs.	07/21/08	138,374	179,013
Common Stock (B)		9 shs.	07/21/08	10,000	138,864
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)		6 shs.	07/21/08	5,510	92,576
				1,359,814	1,656,607

## 2011 Annual Report

## 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
<b>Monessen Holding Corporation</b>				
A designer and manufacturer of a broad line of gas, wood, and electric hearth products and accessories.				
15% Senior Subordinated PIK Note due 2015 (D)	\$823,794	06/28/11	\$547,745	\$-
7% Senior Subordinated Note due 2014 (D)	\$1,350,000	06/28/11	1,281,479	-
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	81 shs.	03/31/06	73,125	-
			1,902,349	-
<b>Motion Controls Holdings</b>				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated Note due 2017	\$ 923,872	11/30/10	908,185	942,349
Limited Liability Company Unit Class B-1 (B)	93,750 uts.	11/30/10	-	96,091
Limited Liability Company Unit Class B-2 (B)	8,501 uts.	11/30/10	-	8,713
			908,185	1,047,153
<b>NABCO, Inc.</b>				
A producer of explosive containment vessels in the United States.				
14% Senior Subordinated Note due 2014 (D)	\$ 330,882	02/24/06	306,091	82,720
Limited Liability Company Unit (B)	437 uts.	*	436,984	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	68 shs.	02/24/06	19,687	-
* 02/24/06 and 06/22/07.			762,762	82,720
<b>NetShape Technologies, Inc.</b>				
A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.				
14% Senior Subordinated Note due 2014	\$ 995,697	02/02/07	896,185	696,988
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	-



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Limited Liability Company Unit Class

D-1 of

Saw Mill PCG Partners LLC (B)	121 uts.	09/30/09	121,160	-
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Limited Liability Company Unit Class

D-2 of

Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	34,547	-
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* 12/18/08 and 09/30/09.			1,648,842	696,988
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## 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
<b>Nicoat Acquisitions LLC</b>				
A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications.				
12.5% Senior Subordinated Note due 2016	\$482,759	11/05/10	\$442,764	\$488,711
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	18,536
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	37,555
Limited Liability Company Unit Series F (B)	52,172 uts.	11/05/10	-	53,477
			494,936	598,279
<b>Northwest Mailing Services, Inc.</b>				
A producer of promotional materials for companies that use direct mail as part of their customer retention and loyalty programs.				
12% Senior Subordinated Note due 2016	\$1,492,105	*	1,263,337	1,481,911
Limited Partnership Interest (B)	1,740 uts.	*	174,006	51,960
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) *07/09/09 and 08/09/10.	2,605 shs.	*	260,479	77,782
			1,697,822	1,611,653
<b>NT Holding Company</b>				
A leading developer, manufacturer and provider of medical products used primarily in interventional pain management.				
12% Senior Subordinated Note due 2019	\$883,117	02/02/11	817,243	897,023
Common Stock (B)	126 shs.	*	125,883	127,902
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) * 02/02/11 and 06/30/11.	59 shs.	02/02/11	52,987	59,693
			996,113	1,084,618
<b>Nyloncraft, Inc.</b>				
A supplier of engineered plastic components for the automotive industry.				
Convertible Preferred Stock A (B)	571 shs.	01/28/02	549,507	966,994
	178,571			
Common Stock (B)	shs.	01/28/02	178,571	244,214
Warrant, exercisable until 2012, to purchase common stock at \$.01 per share (B)	138,929		92,597	190,000
	shs.	01/28/02	820,675	1,401,208

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O E C Holding Corporation

A provider of elevator maintenance, repair and modernization services.

13% Senior Subordinated Note due 2017	\$ 444,445	06/04/10	410,101	442,061
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	33,026
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	18,570
Common Stock (B)	344 shs.	06/04/10	344	-
			496,924	493,657

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## 2011 Annual Report

## 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
<b>OakRiver Technology, Inc.</b>				
Designs, engineers and assembles high precision automated process equipment for the medical device industry with a focus on defibrillators and stents.				
Common Stock (B)	184,176 shs.	01/03/06	\$ 184,176	\$ 285,879
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	43,073 shs.	01/03/06	35,900 220,076	66,858 352,737
<b>Ontario Drive &amp; Gear Ltd.</b>				
A manufacturer of all-wheel drive, off-road amphibious vehicles and related accessories.				
Limited Liability Company Unit (B)	1,942 uts.	01/17/06	302,885	798,654
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	328 shs.	01/17/06	90,424 393,309	134,842 933,496
<b>P K C Holding Corporation</b>				
A manufacturer of plastic film and badges for the general industrial, medical, and food industries.				
14% Senior Subordinated Note due 2016	\$ 1,584,651	12/21/10	1,549,060	1,604,976
Preferred Stock Class A (B)	29 shs.	12/21/10	180,380	289,548
Common Stock (B)	29 shs.	12/21/10	13,500 1,742,940	- 1,894,524
<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	\$ 921,087	12/20/10	905,026	926,875
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	79,748
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	1,072 1,012,169	79,748 1,086,371
<b>Pacific Consolidated Holdings LLC</b>				
A manufacturer of rugged, mobile liquid and gaseous oxygen and nitrogen generating systems used in the global defense, oil and gas, and medical sectors.				
14% Senior Subordinated Note due 2012 (D)	\$737,784	04/27/07	719,555	442,670

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5% Senior Subordinated Note due 2012	\$42,187	07/21/10	42,187	42,268
Preferred Shares Series E (B)	42,187 uts.	07/21/10	-	-
	928,962			
Limited Liability Company Unit (B)	uts.	04/27/07	33,477	-
			795,219	484,938

Paradigm Packaging, Inc.

A manufacturer of plastic bottles and closures for the nutritional, pharmaceutical, personal care, and food packaging markets.

12% Senior Subordinated Note due 2015	\$ 843,750	12/19/00	841,596	843,750
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	197 shs.	12/21/00	140,625	32,567
			982,221	876,317

## 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
<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	\$-
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	-
<b>Postle Aluminum Company LLC</b>				
A manufacturer and distributor of aluminum extruded products.				
15% Senior Subordinated Note due 2013	\$849,117	06/03/10	839,515	857,608
3% Senior Subordinated PIK Note due 2014	\$1,209,017	10/02/06	1,084,679	1,209,017
Limited Liability Company Unit Class A (B)	733 uts.	10/02/06	270,000	82,505
Limited Liability Company Unit (B)	76 uts.	05/22/09	340	8,557
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	4,550 shs.	10/02/06	65,988	512,358
			2,260,522	2,670,045
<b>Power Services Holding Company</b>				
A provider of industrial motor repair services, predictive and preventative maintenance, and performance improvement consulting serving the petrochemical, mining, power generation, metals, and paper industries.				
12% Senior Subordinated Note due 2016	\$1,255,814	02/11/08	1,182,157	1,255,814
Limited Partnership Interest (B)	12.55% int.	02/11/08	94,092	97,911
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	700 shs.	02/11/08	88,723	197,434
			1,364,972	1,551,159
<b>Precision Wire Holding Company</b>				
A manufacturer of specialty medical wires that are used in non-elective minimally invasive surgical procedures.				
14.25% Senior Subordinated Note due 2016	\$1,393,934	11/12/09	1,283,154	1,421,812
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	109 shs.	11/12/09	107,970	107,288
			1,391,124	1,529,100

Qualis Automotive LLC

A distributor of aftermarket automotive brake and chassis products.

Common Stock (B)	187,500 shs.	05/28/04	187,500	200,406
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	199,969 shs.	05/28/04	199,969 387,469	213,734 414,140

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## 2011 Annual Report

## 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
<b>RAJ Manufacturing Holdings LLC</b>				
A designer and manufacturer of women's swimwear sold under a variety of licensed brand names.				
12.5% Senior Subordinated Note due 2014	\$ 1,335,212	12/15/06	\$ 1,282,345	\$ 1,335,212
14.5% Senior Subordinated PIK Note due 2014	\$ 110,639	12/31/10	106,481	110,639
Limited Liability Company Unit (B)	1,497 uts.	12/15/06	149,723	62,267
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	2 shs.	12/15/06	69,609	29,383
			1,608,158	1,537,501
<b>R E I Delaware Holding, Inc.</b>				
An engineer and manufacturer of highly complex, close tolerance components, assemblies, tooling and custom automation equipment primarily for aerospace, medical and defense/radar markets.				
12% Senior Subordinated Note due 2016	\$ 1,350,000	01/18/08	1,322,701	1,350,000
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	3 shs.	01/18/08	16,459	180,975
			1,339,160	1,530,975
<b>Royal Baths Manufacturing Company</b>				
A manufacturer and distributor of acrylic and cultured marble bathroom products.				
12.5% Senior Subordinated Note due 2016	\$ 281,250	11/14/03	276,491	281,250
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	74 shs.	11/14/03	65,089	21,948
			341,580	303,198
<b>Savage Sports Holding, Inc.</b>				
A manufacturer of sporting firearms.				
12% Senior Subordinated Note due 2012	\$ 814,655	09/10/04	803,703	814,655
Preferred Stock Series A (B)	35 shs.	05/28/10	35,038	48,180
Common Stock (B)	324 shs.	*	340,378	949,951
Warrant, exercisable until 2012, to purchase common stock at \$.01 per share (B)	71 shs.	09/10/04	60,129	207,406
* 09/10/04 and 10/05/07.			1,239,248	2,020,192



Sencore Holding Company

A designer, manufacturer, and marketer of decoders, receivers and modulators sold to broadcasters, satellite, cable and telecom operators for encoding/decoding analog and digital transmission video signals.

12.5% Senior Subordinated Note

due 2014 (D)	\$ 1,157,231	01/15/09	826,004	-
Common Stock (B)	69 shs.	01/15/09	69,231	-
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	149 shs.	01/15/09	149,084	-
			1,044,319	-

## 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
<b>Smart Source Holdings LLC</b>				
A short-term computer rental company.				
12% Senior Subordinated Note due 2015	\$ 1,176,924	*	\$ 1,110,935	\$ 1,176,924
Limited Liability Company Unit (B)	328 uts.	*	334,371	286,593
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	83 shs.	*	87,231	72,594
* 08/31/07 and 03/06/08.			1,532,537	1,536,111
<b>Snacks Parent Corporation</b>				
The world's largest provider of trail mixes and a leading provider of snack nuts, dried fruits, and other healthy snack products.				
13% Senior Subordinated Note due 2017	\$ 878,450	11/12/10	832,920	870,295
Preferred Stock A (B)	1,132 shs.	11/12/10	107,498	67,333
Preferred Stock B (B)	525 shs.	11/12/10	49,884	31,246
Common Stock (B)	6,579 shs.	11/12/10	6,579	-
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	1,806 shs.	11/12/10	1,806	-
			998,687	968,874
<b>SouthernCare Holdings, Inc.</b>				
A hospice company providing palliative care services to terminally ill patients.				
14% Senior Subordinated Note due 2018	\$ 909,091	12/01/11	891,040	912,685
Common Stock (B)	909 shs.	12/01/11	90,909	86,355
			981,949	999,040
<b>Spartan Foods Holding Company</b>				
A manufacturer of branded pizza crusts and pancakes.				
12.25% Senior Subordinated Note due 2017	\$ 1,012,500	12/15/09	893,742	759,375
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	136 shs.	12/15/09	120,234	-
			1,013,976	759,375

Specialty Commodities, Inc.

A distributor of specialty food ingredients.

13.25% Senior Subordinated Note due 2016

\$ 1,239,498

10/23/08

1,183,651

1,239,498

Common Stock (B)

15,882 shs.

10/23/08

158,824

188,469

Warrant, exercisable until 2018, to purchase

common stock at \$.01 per share

(B)

5,852 shs.

10/23/08

53,285

69,445

1,395,760

1,497,412

## 2011 Annual Report

## 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
<b>Stanton Carpet Holding Company</b>				
A designer and marketer of high and mid-priced decorative carpets and rugs.				
12.13% Senior Subordinated Note due 2015	\$ 790,244	08/01/06	\$ 767,270	\$ 790,244
Common Stock (B)	165 shs.	08/01/06	164,634	201,129
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	55 shs.	08/01/06	49,390	66,986
			981,294	1,058,359
<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	\$ 935,540	07/01/11	917,915	931,660
Preferred Stock Series A (B)	76 shs.	07/01/11	76,046	48,701
			993,961	980,361
<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 shs.	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	\$ 982,407	12/14/10	931,336	933,287
Common Stock (B)	38 shs.	12/14/10	38,168	4,994
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37 shs.	12/14/10	37,249	4,873
			1,006,753	943,154
<b>Syneract Holdings Corporation</b>				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
	\$ 1,407,773	09/02/08	1,339,026	1,407,773

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14.5% Senior Subordinated Note due  
2017

Redeemable Preferred Stock Series A  
(B)

678 shs. 09/02/08 6,630 41,546

Warrant, exercisable until 2018, to  
purchase

common stock at \$.01 per share (B) 6,778 shs. 09/02/08 59,661 -  
1,405,317 1,449,319

THI Acquisition, Inc.

A machine servicing company providing value-added steel services to long steel products.

Warrant, exercisable until 2016, to purchase

common stock at \$.01 per share (B) 5 shs. 01/14/08 46,617 159,165

## 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
<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.				
12% Senior Subordinated Note due 2014 (D)	\$ 664,062	*	\$ 644,369	\$ -
6.9% Term Note due 2012 (C)	\$ 775,729	05/31/11	775,730	698,157
Common Stock Class B	32 shs.	*	3,574	-
Limited Partnership Interest of Saw Mill Capital Fund V, LLC (B)	2.27% int.	**	117,464	-
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.			1,574,875	698,157
<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.				
12.5% Senior Subordinated Note due 2013 (D)	\$ 1,300,003	10/26/07	1,136,835	-
Series B Preferred Stock (B)	97 shs.	03/31/10	-	-
Common Stock (B)	273 shs.	03/31/10	219,203	-
			1,356,038	-
<b>Transpac Holding Company</b>				
A designer, importer, and wholesaler of home décor and seasonal gift products.				
12% Senior Subordinated Note due 2015	\$ 938,651	10/31/07	881,462	948,038
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
			1,038,272	948,038
<b>Tranzonic Companies (The)</b>				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
13% Senior Subordinated Note due 2013	\$ 1,356,000	02/05/98	1,348,045	1,356,000
Common Stock (B)	315 shs.	02/04/98	315,000	306,780

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Warrant, exercisable until 2013,  
to purchase  
common stock at \$.01 per share

(B)	222 shs.	02/05/98	184,416	216,206
			1,847,461	1,878,986

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## 2011 Annual Report

## 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
<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 2014	\$ 1,222,698	*	\$ 1,113,931	\$ 1,161,563
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	-
Common Stock (B)	393 shs.	*	423,985	-
Warrant, exercisable until 2013, to purchase common stock at \$.02 per share (B)	81 shs.	*	84,650	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	558 shs.	10/20/08	-	-
* 07/19/05 and 12/22/05.			1,750,243	1,161,563
<b>TruStile Doors, Inc.</b>				
A manufacturer and distributor of interior doors.				
Limited Liability Company Unit	5,888 uts.	02/28/11	125,000	59,466
Warrant, exercisable until 2013, to purchase common stock at \$.01 per share (B)	3,060 shs.	04/11/03	36,032	-
			161,032	59,466
<b>U-Line Corporation</b>				
A manufacturer of high-end, built-in, undercounter ice making, wine storage and refrigeration appliances.				
12.5% Senior Subordinated Note due 2016	\$ 473,338	04/30/04	465,670	473,338
Common Stock (B)	96 shs.	04/30/04	96,400	66,879
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	122 shs.	04/30/04	112,106	84,640
			674,176	624,857
<b>U M A Enterprises, Inc.</b>				
An importer and wholesaler of home décor products.				
15% Senior Subordinated Note due 2015	\$ 989,207	02/08/08	977,153	989,207
Convertible Preferred Stock (B)	470 shs.	02/08/08	469,565	303,793
			1,446,718	1,293,000

Visioneering, Inc.



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A designer and manufacturer of tooling and fixtures for the aerospace industry.

10.5% Senior Secured Term Loan due 2013	\$ 437,648	05/17/07	436,190	420,975
13% Senior Subordinated Note due 2014	\$ 370,588	05/17/07	352,445	348,135
18% PIK Convertible Preferred Stock (B)	21,361 shs.	03/13/09	41,440	-
Common Stock (B)	70,588 shs.	05/17/07	70,588	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	20,003 shs.	05/17/07	31,460	-
			932,123	769,110

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## 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
<b>Vitex Packaging Group, Inc.</b>				
A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.				
10% Senior Subordinated PIK Note due 2012	\$ 101,404	10/29/09	\$ 100,881	\$ 97,093
5% Senior Subordinated PIK Note due 2012 (D)	\$ 450,000	06/30/07	392,576	442,632
	406,525			
Class B Unit (B)	uts. 450,000	10/29/09	184,266	-
Class C Unit (B)	uts. 383,011	10/29/09	413,244	279,403
Limited Liability Company Unit Class A (B)	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.			1,417,168	819,128
<b>Wellborn Forest Holding Company</b>				
A manufacturer of semi-custom kitchen and bath cabinetry.				
12.13% Senior Subordinated Note due 2014	\$ 911,250	11/30/06	867,531	820,125
Common Stock (B)	101 shs.	11/30/06	101,250	5,632
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	51 shs.	11/30/06	45,790	2,812
			1,014,571	828,569
<b>Wheaton Holding Corporation</b>				
A distributor and manufacturer of laboratory supply products and packaging.				
13% Senior Subordinated Note due 2017	\$ 1,000,000	06/08/10	922,355	1,015,000
Preferred Stock Series B (B)	703 shs.	06/08/10	70,308	78,703
Common Stock (B)	353 shs.	06/08/10	353	39,466
			993,016	1,133,169
<b>Whitcraft Holdings, Inc.</b>				
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	734,368	810,411
Common Stock (B)	205 shs.	12/16/10	205,480	191,582
Warrant, exercisable until 2015, to purchase				

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common stock at \$.02 per share (B)	55 shs.	12/16/10	49,334	51,485
			989,182	1,053,478

Workplace Media Holding Company

A direct marketer specializing in providing advertisers with access to consumers in the workplace.

13% Senior Subordinated Note due 2015

(D)	\$ 654,247	05/14/07	601,454	163,562
Limited Partnership Interest (B)	12.26% int.	05/14/07	61,308	-
Warrant, exercisable until 2015, to purchase				
common stock at \$.02 per share (B)	47 shs.	05/14/07	44,186	-
			706,948	163,562

## 2011 Annual Report

## 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
<b>WP Supply Holding Corporation</b>				
A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest.				
14.5% Senior Subordinated Note due 2018	\$ 853,424	11/03/11	\$ 836,639	\$ 850,138
Common Stock (B)	1,500 shs.	11/03/11	150,000	142,500
			986,639	992,638
<b>Xaloy Superior Holdings, Inc.</b>				
A provider of melt processing components and ancillary equipment for both plastic injection molding and extrusion applications.				
15% Senior Subordinated Note due 2015	\$ 1,248,678	09/08/08	1,214,045	1,248,678
Common Stock (B)	150 shs.	09/08/08	150,000	210,317
			1,364,045	1,458,995
Total Private Placement Investments (E)			\$ 117,020,358	\$ 106,928,715

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Restricted Securities: (A) (Continued)	Interest Rate	Maturity Date	Shares or Principal Amount	Cost	Market Value
Rule 144A Securities - 3.50%:					
Bonds - 3.50%					
ArcelorMittal	6.125	%06/01/18	\$ 500,000	\$ 516,539	\$ 493,781
Calumet Specialty Products Partners L.P.	9.375	05/01/19	375,000	348,357	\$ 360,000
Cequel Communications Holdings I LLC	8.625	11/15/17	500,000	524,329	530,000
CHC Helicopter SA	9.250	10/15/20	500,000	452,582	450,000
Citigroup, Inc.	7.000	05/04/15	500,000	505,808	500,625
Coffeyville Resources LLC	9.000	04/01/15	26,000	25,911	27,560
First Data Corporation	7.375	06/15/19	250,000	250,000	235,000
FMG Resources	7.000	11/01/15	250,000	259,322	252,500
Hilcorp Energy Company	7.625	04/15/21	325,000	310,608	340,438
International Automotive Component	9.125	06/01/18	250,000	250,000	223,750
Nexeo Solutions LLC	8.375	03/01/18	20,000	20,000	19,900
Northern Tier Energy LLC	1.000	12/01/17	325,000	339,218	347,750
Pittsburgh Glass Works, LLC	8.500	04/15/16	35,000	35,000	33,688
Seagate HDD Cayman	7.000	11/01/21	150,000	150,000	153,750
Valeant Pharmaceuticals International	7.000	10/01/20	250,000	250,881	246,875
Total Bonds				4,238,555	4,215,617
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				4,238,555	4,215,617
Total Corporate Restricted Securities				\$ 121,258,913	\$ 111,144,332



## 2011 Annual Report

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Public Securities - 12.39%: (A)	Interest Rate	Maturity Date	Principal Amount	Cost	Market Value
Bonds - 12.37%					
Accuride Corp	9.500	%08/01/18	\$ 500,000	\$ 480,053	\$ 482,500
Affinia Group, Inc.	9.000	11/30/14	25,000	24,525	24,750
Alcoa, Inc.	6.150	08/18/20	600,000	632,840	623,386
Alere, Inc.	9.000	05/15/16	300,000	318,720	303,000
Anglogold Holdings PLC	5.375	04/15/20	600,000	605,855	596,073
Avis Budget Car Rental	9.750	03/15/20	375,000	375,000	385,313
Bank of America Corporation	5.875	01/05/21	600,000	625,475	571,096
B E Aerospace, Inc.	6.875	10/01/20	250,000	257,332	272,500
Centurytel, Inc.	5.000	02/15/15	500,000	510,845	505,890
Clean Harbors, Inc.	7.625	08/15/16	20,000	20,789	21,250
Citigroup, Inc.	5.500	04/11/13	500,000	479,940	510,462
C R H America, Inc.	5.300	10/15/13	500,000	466,666	519,320
EnSCO PLC	3.250	03/15/16	600,000	598,084	612,087
Equifax, Inc.	4.450	12/01/14	500,000	511,744	527,003
GATX Corporation	4.750	05/15/15	500,000	507,345	532,933
General Electric Capital Corporation	5.500	01/08/20	500,000	498,341	550,146
Goldman Sachs Group, Inc.	4.750	07/15/13	500,000	470,014	506,613
Headwaters, Inc.	7.625	04/01/19	305,000	305,155	269,925
Health Management Association	6.125	04/15/16	250,000	258,111	258,750
Hertz Corporation	6.750	04/15/19	220,000	216,584	220,550
International Game Technology	7.500	06/15/19	500,000	499,772	576,139
Johnson Controls, Inc.	5.500	01/15/16	500,000	433,536	559,450
Kraft Foods, Inc.	5.375	02/10/20	500,000	514,841	576,925
Masco Corporation	7.125	03/15/20	350,000	349,995	353,228
Morgan Stanley	5.500	01/26/20	500,000	497,711	455,137
NBC Universal Media LLC	5.150	04/30/20	500,000	499,384	556,687
Precision Drilling Corporation	6.625	11/15/20	250,000	258,206	255,625
Qwest Diagnostic, Inc.	4.750	01/30/20	500,000	498,873	533,709
Sealed Air Corporation	7.875	06/15/17	500,000	493,932	527,383
Sprint Nextel Corporation	6.000	12/01/16	500,000	514,248	415,000
Steelcase, Inc.	6.375	02/15/21	500,000	508,194	531,338
Thermadyne Holdings Corporation	9.000	12/15/17	250,000	266,981	258,750
Time Warner Cable, Inc.	5.000	02/01/20	500,000	491,352	547,816
Tutor Perini Corporation	7.625	11/01/18	300,000	308,942	283,500
Tyco International Group SA	8.500	01/15/19	125,000	124,998	161,010
Total Bonds				14,424,383	14,885,244





## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Corporate Public Securities: (A) (Continued)	Shares	Cost	Market Value
Common Stock - 0.02%			
Intrepid Potash, Inc. (B)	185	\$5,920	\$4,187
Nortek, Inc. (B)	100	1	2,616
Rue21, Inc. (B)	350	6,650	7,559
Total Common Stock		12,571	14,362
Total Corporate Public Securities		\$14,436,954	\$14,899,606
Short-Term Securities:			
Commercial Paper - 6.65%			
AGL Capital Corp		0.470	%01/13/12
Autozone, Inc.		0.550	01/13/12
Oneok, Inc.		0.500	01/11/12
Pacific Gas & Electric Company		0.550	01/04/12
Reed Elsevier, Inc.		0.500	01/13/12
Ryder System, Inc.		0.400	01/03/12
Total Short-Term Securities		\$ 7,999,024	\$ 7,999,024
Total Investments	111.41	%	\$ 143,694,891
Other Assets	5.43		6,530,107
Liabilities	(16.84	)	(20,253,403 )
Total Net Assets	100.00	%	\$ 120,319,666

(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 December 31, 2011.

(D) Defaulted security; interest not accrued.

(E) Illiquid security. As of December 31, 2011, the values of these securities amounted to \$106,928,715 or 88.87% of net assets.

^ Effective yield at purchase

PIK - Payment-in-kind

## 2011 Annual Report

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Industry Classification:	Fair Value/ Market Value	Fair Value/ Market Value
		BUILDINGS & REAL ESTATE - 2.67%
AEROSPACE - 3.57%		
A E Company, Inc.	\$ 1,731,642	K W P I Holdings Corporation 1,569,397
B E Aerospace, Inc.	272,500	Masco Corporation 353,228
Merex Holding Corporation	474,156	Sunrise Windows Holding Company 943,154
Visioneering, Inc.	769,110	TruStile Doors, Inc. 59,466
Whitcraft Holdings, Inc.	1,053,478	Tutor Perini Corporation 283,500
	4,300,886	3,208,745
		CHEMICAL, PLASTICS & RUBBER - 0.99%
AUTOMOBILE - 5.61%		
Accuride Corp	482,500	Capital Specialty Plastics, Inc. 595,089
Avis Budget Car Rental	385,313	Nicoat Acquisitions LLC 598,279
F H Equity LLC	535,315	1,193,368
International Automotive Component	223,750	CONSUMER PRODUCTS - 9.86%
J A C Holding Enterprises, Inc.	755,247	Aero Holdings, Inc. 1,736,293
Jason Partners Holdings LLC	25,511	Bravo Sports Holding Corporation 603,951
Johnson Controls, Inc.	559,450	Custom Engineered Wheels, Inc. 1,224,223
K & N Parent, Inc.	996,854	Handi Quilter Holding Company 501,553
Nyloncraft, Inc.	1,401,208	K N B Holdings Corporation 2,210,426
		Manhattan Beachwear Holding Company 1,173,741
Ontario Drive & Gear Ltd.	933,496	R A J Manufacturing Holdings LLC 1,537,501
Pittsburgh Glass Works, LLC	33,688	Tranzonic Companies (The) 1,878,986
Qualis Automotive LLC	414,140	WP Supply Holding Corporation 992,638
	6,746,472	11,859,312
BEVERAGE, DRUG & FOOD - 6.09%		
		CONTAINERS, PACKAGING & GLASS - 4.54%
Eatem Holding Company	1,053,601	Flutes, Inc. 262,396
F F C Holding Corporation	1,110,300	P K C Holding Corporation 1,894,524
Golden County Foods Holding, Inc.	-	P P T Holdings LLC 1,086,371
Hospitality Mints Holding Company	1,356,547	Paradigm Packaging, Inc. 876,317
Kraft Foods, Inc.	576,925	Sealed Air Corporation 527,383
Snacks Parent Corporation	968,874	Vitex Packaging Group, Inc. 819,128
Spartan Foods Holding Company	759,375	5,466,119
Specialty Commodities, Inc.	1,497,412	
	7,323,034	DISTRIBUTION - 1.90%
BROADCASTING & ENTERTAINMENT - 1.05%		
HOP Entertainment LLC	-	Duncan Systems, Inc. 689,822
NBC Universal Media LLC	556,687	F C X Holdings Corporation 1,592,034
Time Warner Cable, Inc.	547,816	2,281,856
Sundance Investco LLC	-	

Workplace Media Holding Company	163,562
	1,268,065

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## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
DIVERSIFIED/CONGLOMERATE, MANUFACTURING - 14.01%		ELECTRONICS - 1.39%	
A H C Holding Company, Inc.	\$ 1,579,064	Barcodes Group, Inc.	\$ 878,624
Arrow Tru-Line Holdings, Inc.	685,116	Connecticut Electric, Inc.	794,849
C D N T, Inc.	762,436		1,673,473
F G I Equity LLC	568,821	FINANCIAL SERVICES - 3.37%	
G C Holdings	1,040,187	Citigroup, Inc.	1,011,087
Ideal Tridon Holdings, Inc.	1,001,055	DPC Holdings LLC	999,654
K P H I Holdings, Inc.	1,005,316	GATX Corporation	532,933
K P I Holdings, Inc.	1,359,608	General Electric Capital Corporation	550,146
LPC Holding Company	1,039,781	Goldman Sachs Group, Inc.	506,613
MEGTEC Holdings, Inc.	374,005	Morgan Stanley	455,137
Milwaukee Gear Company	1,656,607		4,055,570
		HEALTHCARE, EDUCATION & CHILDCARE - 7.43%	
Nortek, Inc.	2,616	Alere, Inc.	303,000
O E C Holding Corporation	493,657	American Hospice Management Holding LLC	2,239,442
Postle Aluminum Company LLC	2,670,045	CHG Alternative Education Holding Company	788,600
Truck Bodies & Equipment International	1,161,563	Marshall Physicians Services LLC	509,003
Xaloy Superior Holdings, Inc.	1,458,995	Qwest Diagnostic, Inc.	533,709
	16,858,872		
DIVERSIFIED/CONGLOMERATE, SERVICE - 10.31%		SouthernCare Holdings, Inc.	999,040
A S C Group, Inc.	1,756,270	Strata/WLA Holding Corporation	980,361
A W X Holdings Corporation	378,000	Synteract Holdings Corporation	1,449,319
Advanced Technologies Holdings	627,427	Touchstone Health Partnership	-
Affinia Group, Inc.	24,750	Wheaton Holding Corporation	1,133,169
Anglogold Holdings PLC	596,073		8,935,643
		HOME & OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 6.07%	
Apex Analytix Holding Corporation	1,316,829	Connor Sport Court International, Inc.	1,281,391
Associated Diversified Services	703,071	H M Holding Company	181,350
Bank of America Corporation	571,096	Home Décor Holding Company	259,357
C R H America, Inc.	519,320	Monessen Holding Corporation	-
Clough, Harbour and Associates	1,445,239	Royal Baths Manufacturing Company	303,198
Crane Rental Corporation	1,165,929	Stanton Carpet Holding Company	1,058,359
Equifax, Inc.	527,003	Steelcase, Inc.	531,338
Insurance Claims Management, Inc.	222,492	Transpac Holding Company	948,038
Mail Communications Group, Inc.	756,538		
Nexeo Solutions LLC	19,900		

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Northwest Mailing Services, Inc.	1,611,653	U-Line Corporation	624,857
Pearlman Enterprises, Inc.	-	U M A Enterprises, Inc.	1,293,000
Tyco International Group SA	161,010	Wellborn Forest Holding Company	828,569
	12,402,600		7,309,457

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## 2011 Annual Report

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
LEISURE, AMUSEMENT, ENTERTAINMENT - 2.16%		NATURAL RESOURCES - 1.89%	
International Game Technology	\$ 576,139	AGL Capital Corp	\$ 1,499,765
Savage Sports Holding, Inc.	2,020,192	ArcelorMittal	493,781
	2,596,331	Headwaters, Inc.	269,925
		Intrepid Potash, Inc.	4,187
MACHINERY - 8.02%			2,267,658
A S A P Industries LLC	943,194	OIL & GAS - 5.02%	
Arch Global Precision LLC	990,096	Calumet Specialty Products Partners L.P.	360,000
E S P Holdco, Inc.	1,428,359	Coffeyville Resources LLC	27,560
M V I Holding, Inc.	723,599	EnSCO PLC	612,087
Motion Controls Holdings	1,047,153	Hilcorp Energy Company	340,438
NetShape Technologies, Inc.	696,988	International Offshore Services LLC	675,000
Pacific Consolidated Holdings LLC	484,938	MBWS Ultimate Holdco, Inc.	1,922,146
Power Services Holding Company	1,551,159	Northern Tier Energy LLC	347,750
R E I Delaware Holding, Inc.	1,530,975	Oneok, Inc.	1,499,792
Thermadyne Holdings Corporation	258,750	Precision Drilling Corporation	255,625
	9,655,211		
MEDICAL DEVICES/BIOTECH - 4.20%			6,040,398
Coeur, Inc.	687,612	PHARMACEUTICALS - 1.61%	
E X C Acquisition Corporation	43,059	CorePharma LLC	1,686,628
ETEX Corporation	-	Valeant Pharmaceuticals International	246,875
Health Management Association	258,750		1,933,503
MedSystems Holdings LLC	745,690	PUBLISHING/PRINTING - 0.83%	
MicroGroup, Inc.	355,449	Reed Elsevier, Inc.	999,833
NT Holding Company	1,084,618	RETAIL STORES - 1.25%	
OakRiver Technology, Inc.	352,737	Autozone, Inc.	1,499,725
Precision Wire Holding Company	1,529,100	Rue21, Inc.	7,559
TherOX, Inc.	-		1,507,284
	5,057,015		
MINING, STEEL, IRON & NON-PRECIOUS METALS - 0.86%		TECHNOLOGY - 1.60%	
Alcoa, Inc.	623,386	First Data Corporation	235,000
FMG Resources	252,500	Seagate HDD Cayman	153,750
T H I Acquisition, Inc.	159,165	Sencore Holding Company	-
	1,035,051	Smart Source Holdings LLC	1,536,111
			1,924,861



## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2011

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
TELECOMMUNICATIONS - 3.05%		WASTE MANAGEMENT / POLLUTION - 0.60%	
All Current Holding Company	\$ 718,869	Clean Harbors, Inc.	\$ 21,250
Centurytel, Inc.	505,890	Terra Renewal LLC	698,157
Cequel Communications Holdings I LLC	530,000	Torrent Group Holdings, Inc.	-
Pacific Gas & Electric Company	1,499,931		719,407
Sprint Nextel Corporation	415,000		
	3,669,690		
TRANSPORTATION - 1.46%		Total Investments - 111.41%	\$ 134,042,962
CHC Helicopter SA	450,000		
Hertz Corporation	220,550		
NABCO, Inc.	82,720		
Ryder System, Inc.	999,978		
	1,753,248		

See Notes to Consolidated Financial Statements



2011 Annual Report

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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. Effective December 16, 2011, the Trust's name was changed to Babson Capital Participation Investors. Prior to December 16, 2011, the Trust's name was MassMutual Participation Investors.

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. At least half of these investments normally include equity features such as common stock, 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 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

which may be effected immediately if the market is adequate, restricted securities can be sold only in a public offering for which a registration statement is in effect under the Securities Act of 1933, as amended (the "1933 Act") or pursuant to a transaction that is exempt from registration under the 1933 Act. Restricted securities that are valued using public information, such as observable trades or market quotations, are reflected as restricted securities at market value. Valuation of securities in the Trust's portfolio is made on the basis of the market price whenever market quotations are readily available.

The value of restricted securities at fair value, and of any other assets for which there are no reliable market quotations, is the fair value as determined in good faith by the Trust's Board of Trustees (the "Trustees"). Each restricted security is valued by the Trustees at the time of its acquisition and at least quarterly thereafter. The Trustees have established guidelines to aid in the valuation of each security. Generally, restricted securities are initially valued at cost at the time of acquisition by the Trust. Values greater or less than cost are used thereafter for restricted securities in appropriate circumstances. Among the factors ordinarily considered in the valuation of debt and equity securities at fair value are the results of various valuation methods, which may include comparable company valuation analyses, discounted future cash flow models and recent private transactions. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the portfolio company's earnings, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to publicly traded securities with similar characteristics, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. Consideration is also given to corporate governance, marketability, company and industry results and outlooks, and general market conditions. The determination of fair value involves

below discusses the Federal tax consequences of the PI Subsidiary Trust.

subjective judgments. As a result, using fair value to price a security may result in a price materially different from the price used by other investors or the price that may be realized upon the actual sale of the security. All of these factors are in accordance with the authoritative guidance on fair value measurements under U.S. GAAP. In making valuations, opinions of counsel may be relied upon as to whether or not securities are restricted securities and as to the legal requirements for public sale.

When market quotations are readily available for unrestricted securities of an issuer, restricted securities of the same class are generally valued at a discount from the market price of such unrestricted securities. The Trustees, however, consider all factors in fixing any discount, including the filing of a registration statement for such securities under the 1933 Act and any other developments which are likely to increase the probability that the securities may be publicly sold by the Trust without restriction.

## 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").

### A. Valuation of Investments:

Nearly all securities which are acquired by the Trust directly from the issuers and shares into which such securities may be converted or which may be purchased on the exercise of warrants attached to such securities will be subject to legal or contractual delays in, or restrictions on, resale and will therefore be "restricted securities." Generally speaking, as contrasted with open-market sales of unrestricted securities (public securities),

## Babson Capital Participation Investors

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 making valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the relevant factors referred to above. 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 \$106,928,715 (88.87% of net assets) as of December 31, 2011 whose values have been estimated by the Trustees 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.

The values for Rule 144A restricted securities and corporate public securities are stated at the last reported sales price or at prices based upon quotations obtained from brokers and dealers as of December 31, 2011, subject to discount where appropriate, and are approved by the Trustees.

Short-term securities with more than sixty days to maturity are valued at fair value and short-term securities having a maturity of sixty days or less are valued at amortized cost, which approximates fair value.

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Trust discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1: quoted prices in active markets for identical securities

Level 2: other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3: significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments)

The following is a summary of the inputs used to value the Trust's net assets as of December 31, 2011:

Assets:	Total	Level 1	Level 2	Level 3
Restricted Securities				
Corporate Bonds	\$89,184,873	\$-	\$4,215,617	\$84,969,256
Common Stock - U.S.	9,972,142	-	-	9,972,142
Preferred Stock	5,965,999	-	-	5,965,999
Partnerships and LLCs	6,021,318	-	-	6,021,318
Public Securities				
Corporate Bonds	14,885,244	-	14,885,244	-
Common Stock - U.S.	14,362	14,362	-	-
Short-term Securities	7,999,024	-	7,999,024	-
Total	\$134,042,962	\$14,362	\$27,099,885	\$106,928,715

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

There were no transfers between Level 1 and Level 2 assets during the year.

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

	Beginning balance at 12/31/2010	Accrued discounts/ premium	Total gains or (losses) realized/ unrealized	Purchases	Sales	Transfers in Ending and/or out balance at of Level 3	12/31/2011	Unrealized gains & (losses) in net income from assets still held
Assets:								
Restricted Securities								
Corporate Bonds	\$91,475,704	\$669,946	\$(6,284,084)	\$17,517,353	\$(18,409,663)	\$-	\$84,969,256	\$(5,066,000)
Common Stock - U.S.	7,253,164	-	3,610,089	873,567	(1,764,678)	-	9,972,142	3,014,000
Preferred Stock	4,615,621	-	821,469	539,309	(10,400)	-	5,965,999	811,000
Partnerships and LLCs	4,162,642	-	2,349,149	807,014	(1,297,487)	-	6,021,318	1,584,000
	\$107,507,131	\$669,946	\$496,623	\$19,737,243	\$(21,482,228)	\$-	\$106,928,715	\$343,760

## 2011 Annual Report

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The inputs and methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

**B. Accounting for Investments:**

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

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

**C. Use of Estimates:**

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

**D. Federal Income Taxes:**

The Trust has elected to be taxed as a "regulated investment company" under the Internal Revenue Code, and intends to maintain this qualification and to distribute substantially all of its net taxable income to its shareholders. In any year when net long-term capital gains are

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.

Net investment income and net realized gains or losses of the Trust as presented under U.S. GAAP may differ from distributable taxable earnings due to earnings from the PI Subsidiary Trust as well as certain permanent and temporary differences in the recognition of income and realized gains or losses on certain investments. Permanent differences will result in reclassifications to the capital accounts. In 2011, the Trust increased undistributed net investment income by \$511,765 decreased accumulated net realized gains by \$165,990, increased retained net realized gain on investments, prior years by \$311,532 and decreased additional paid in capital by \$657,307 to more accurately display the Trust's capital financial position on a tax-basis in accordance with U.S. GAAP. These re-classifications had no impact on net asset value.

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.

The components of income taxes included in the consolidated statement of operations for the year end December 31, 2011 were as follows:

Income tax expense (benefit)	
Current	
Federal	\$ (23,128 )
State	48,277
Total current	25,149
Deferred	
Federal	135,245

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. For the year ended December 31, 2011, the Trust had a net realized taxable long-term capital gain balance of \$845,993 which the Trustees voted to retain and pay the federal capital gain tax thereon. The Trust has incurred income tax expense of \$296,098 and (\$75,458) respectively, on the Statement of Operations related to the 2011 and 2010 retained realized capital gains.

State	102,419
Total deferred	237,664

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 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

Total income tax expense from continuing operations	\$	262,813
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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.

## Babson Capital Participation Investors

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2011 we as follows:

Deferred tax assets:

Net operating loss	\$ 28,513
Total deferred tax assets	28,513
Less valuation allowance	(28,513 )
Deferred tax asset	-

Deferred tax liabilities:

Unrealized gain on investments	502,128
Total deferred tax liabilities	502,128
Net deferred tax liability	\$ (502,128 )

The components of capital shown in the following table represent the Trust's undistributed net investment income, undistributed net capital gain, losses the Trust may be able to offset against gains in future taxable years, as well as unrealized appreciation (depreciation) on securities and other Fund investments, if any, at December 31, 2011, each of which determined on a U.S. federal tax basis:

Undistributed	Undistributed	Accumulated	Net Unrealized Appreciation (Depreciation) on Securities and Other Investments
(Overdistributed)	Undistributed	Loss	
Net Investment Income	Net Capital Gain	Carryforward	
\$ 1,167,186	\$ 615,940	\$ -0-	\$ ( 8,794,443 )

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

The tax character of distributions declared during the years ended December 31, 2011 and 2010 was as follows:

Distributions paid from:	2011	2010
Ordinary Income	\$ 12,412,703	\$ 10,026,104
Long-term Capital Gains	\$ -	\$ -



December 31, 2011.

A reconciliation of the differences between the Subsidiary Trust's income tax expense and the amount computed by applying the prevailing U.S. federal tax rate to pretax income for the year ended December 31, 2011 is as follows:

	Amount	Percentage
Provision for income taxes at the U.S. federal rate	\$ 145,223	35.00 %
State tax, net of federal effect	14,833	3.58 %
Change in valuation allowance	28,513	6.87 %
Rate revaluation	49,095	11.83 %
Other	25,149	6.06 %
Income tax expense	\$ 262,813	6.34 %

Each of the Trust's Federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

#### E. Distributions to Shareholders:

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

#### 3. Investment Advisory and Administrative Services Contract A. Services:

Under an Investment Advisory and Administrative Services Contract (the "Contract") with the Trust, Babson Capital has agreed to use its best efforts to present to the Trust a continuing and suitable investment program consistent with the investment objectives and policies of the Trust. Babson Capital represents the Trust in any negotiations with issuers, investment banking firms, securities brokers or dealers and other institutions or investors relating to the Trust's investments. Under the Contract, Babson Capital also provides administration of the day-to-day operations of the Trust and provides the Trust with office space and office equipment, accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

#### B. Fee:

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



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4. Senior Secured 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 period December 13 through December 31, 2011, the Trust incurred total interest expense on the Note of \$30,675.

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.

Prior to the issuance of the Note, MassMutual held the Trust's \$12,000,000 Senior Fixed Rate Convertible Note (the "Prior Note") issued by the Trust in 1995. The Prior Note matured on December 13, 2011 and accrued at 5.80% per annum. Upon maturity, all principal was returned to MassMutual (including accrued interest). For the period January 1 through

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

	March 31, 2011		
	Amount		Per Share
Investment income	\$ 3,785,681		
Net investment income	3,201,825	\$	0.32
Net realized and unrealized gain on investments (net of taxes)	1,032,385		0.10
	June 30, 2011		
	Amount		Per Share
Investment income	\$ 4,025,618		
Net investment income	3,429,310	\$	0.34
Net realized and unrealized gain on investments (net of taxes)	1,345,218		0.13

December 13, 2011, the Trust incurred total interest expense on the Prior Note of \$661,200.

Management estimates that the fair value of the Note was \$15,000,000 as of December 31, 2011.

				September 30, 2011	
				Amount	Per Share
		Investment income	\$	3,420,945	
5. Purchases and Sales of Investments		Net investment income			\$ 0.27
		Net realized and unrealized		2,804,861	
		gain on investments (net of taxes)		(407,958 )	(0.04 )
	For the year ended 12/31/2011				
	Cost of Investments Acquired	Proceeds from Sales or Maturities		December 30, 2011 Amount	Per Share
				\$ 2,739,246	
				2,090,976	\$ 0.21
Corporate restricted securities	\$ 21,762,042	\$ 19,839,349		Net realized and unrealized	
Corporate public securities	6,318,943	6,496,070		gain on investments (net of taxes)	(1,176,062) (0.11 )

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of December 31, 2011. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of December 31, 2011 is \$9,651,929 consists of \$13,242,313 appreciation and \$22,894,242 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$502,128 on net unrealized gains on the PI Subsidiary Trust.

7. Aggregate Remuneration Paid to Officers, Trustees, and their Affiliated Persons  
 For the year ended December 31, 2011, the Trust paid its Trustees aggregate remuneration of \$242,500. During the period, the Trust did not pay any compensation to any of its Trustees who are "interested persons" (as defined by the 1940

Babson Capital Participation Investors

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Act) of the Trust. The Trust classifies Messrs. Noreen and Joyal as "interested persons" of the Trust.

All of the Trust's officers are employees of Babson Capital or MassMutual. Pursuant to the Contract, the Trust does not compensate its officers who are employees of Babson Capital or MassMutual (except for the Chief Compliance Officer of the Trust unless assumed by Babson Capital). For the year ended December 31, 2011, Babson Capital paid the compensation of the Chief Compliance Officer of the Trust.

Mr. Noreen, one of the Trust's Trustees, is an "affiliated person" (as defined by the 1940 Act) of MassMutual and Babson Capital.

The Trust did not make any payments to Babson Capital for the year ended December 31, 2011, other than amounts payable to Babson Capital pursuant to the Contract.

#### 8. Certifications

As required under New York Stock Exchange ("NYSE") Corporate Governance Rules, the Trust's principal executive officer has certified to the NYSE that he was not aware, as of the certification date, of any violation by the Trust of the

NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Trust's principal executive and principal financial officers have made quarterly certifications, included in filings with the Securities and Exchange Commission on Forms N-CSR and N-Q, relating to, among other things, the Trust's disclosure controls and procedures and internal control over financial reporting, as applicable.

#### 9. Subsequent Events

The Trust has evaluated the possibility of subsequent events existing in this report through February 27, 2012. The Trust has determined that there are no material events that would require recognition or disclosure in this report through this date.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

The Shareholders and Board of Trustees of Babson Capital Participation Investors

We have audited the accompanying consolidated statement of assets and liabilities of Babson Capital Participation Investors (the "Trust"), including the consolidated schedule of investments, as of December 31, 2011, and the related consolidated statements of operations and cash flows for the year then ended, the consolidated statements of changes in net assets for each of the years in the two-year period then ended, and the consolidated financial highlights for each of the years in the five-year period then ended. These consolidated financial statements and consolidated financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2011 by correspondence with the custodian or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and consolidated financial highlights referred to above present fairly, in all material respects, the financial position of Babson Capital Participation Investors as of December 31, 2011, the results of their consolidated operations and cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the consolidated financial highlights for each of the years in the five-year period then ended, in conformity with accounting principles generally accepted in the United States of America.

Boston, Massachusetts  
February 27, 2012



Babson Capital Participation Investors

INTERESTED TRUSTEES

Name (Age), Address

<p>Clifford M. Noreen* (54)</p> <p>Babson Capital Participation Investors</p> <p>1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>Trustee (since 2009)</p> <p>/</p> <p>Nominee</p> <p>Chairman (since 2009)</p>	<p>Term expires 2012</p>	<p>President (since 2008), Vice Chairman (2007-2008), Member of the Board of Managers (since 2006), Managing Director (since 2000), Babson Capital; President (2005-2009), Vice President (1993-2005) of the Trust.</p>	<p>2 President (since 2009), Senior Vice President (1996-2009), HYP Management LLC (LLC Manager); Director (since 2005), MassMutual Corporate Value Limited (investment company); Director (since 2005), MassMutual Corporate Value Partners Limited (investment company); Senior Vice President (1996-2008), MMHC Investment LLC (passive investor); Managing Director (2006-2009), MassMutual Capital Partners LLC (investment company); Director (since 2008), Jefferies Finance LLC (a finance company); Chairman and Chief Executive Officer (since 2009), Manager (since 2007), MMC Equipment Finance LLC; Chairman (since 2009), Trustee (since 2005), President (2005-2009), CI Subsidiary Trust and PI Subsidiary Trust; Chairman (since 2009), Trustee (since 2009), President (2005-2009), Vice President (1993-2005), Babson Capital Corporate Investors (closed-end investment company advised by Babson Capital); and Member of Investment Committee (since 1999), Diocese of Springfield.</p>
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\*Mr. Noreen is classified as an “interested person” of each Trust and Babson Capital (as defined by the Investment Act of 1940, as amended) because of his position as an officer of each Trust and President of Babson Capital.

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## INTERESTED TRUSTEES

## Name (Age), Address

<p>Robert E. Joyal* (67)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>Trustee (since 2003)</p>	<p>Term expires 2013</p>	<p>President (2001-2003) of Babson Capital.</p>	<p>67</p> <p>President (1999-2003) and Trustee (since 2003), of the Trust; Director (since 2006), Jefferies Group, Inc. (financial services); Director (since 2003), Alabama Aircraft Industries, Inc. (aircraft maintenance and overhaul); Director (2007-2011), Scottish Re Group Ltd. (global life reinsurance specialist); Trustee (since 2003), MassMutual Select Funds, formerly MassMutual Institutional Funds, (an open-end investment company advised by MassMutual); Trustee (since 2003), MML Series Investment Fund (an open-end investment company advised by MassMutual); Trustee (1998-2003), Senior Vice President (1998-2001) and President (2001-2003), CI Subsidiary Trust and PI Subsidiary Trust; and President (1999-2003), Trustee (since 2003), Babson Capital Corporate Investors (closed-end investment company advised by Babson Capital).</p>
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\*Mr. Joyal retired as President of Babson Capital in June 2003. In addition and as noted above, Mr. Joyal is a director of Jefferies Group, Inc., which has a wholly owned broker-dealer subsidiary that may execute portfolio transactions and/or engage in principal transactions with the Trust, other investment companies advised by Babson Capital or any other advisory accounts over which Babson Capital has brokerage placement discretion. Accordingly, the Trust has determined to classify Mr. Joyal as an “interested person” of the Trust and Babson Capital (as defined in the Investment Company Act of 1940, as amended).





## Babson Capital Participation Investors

## INDEPENDENT TRUSTEES

## Name (Age), Address

Name (Age), Address	Trustee	Term expires	President (since 2010), W J Barrett Associates, Inc.; President (2002-2010), Barrett-Gardner Associates, Inc.	2	Trustee (since 2006), Babson Capital Corporate Investors (a closed-end investment company advised by Babson Capital); Director (since 1979), TGC Industries, Inc. (geophysical services); Director and Secretary (since 2001 and from 1996-1997), Chase Packaging Corporation (agricultural services); Chairman and Director (since 2000), Rumson-Fair Haven Bank and Trust Company (commercial bank and trust company); and Director (since 1983), Executive Vice President, Secretary and Assistant Treasurer (since 2004), Supreme Industries, Inc. (specialized truck and body manufacturer).
William J. Barrett (72) Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee (since 2006) / Nominee	Term expires 2012	President (since 2010), W J Barrett Associates, Inc.; President (2002-2010), Barrett-Gardner Associates, Inc.	2	Trustee (since 2006), Babson Capital Corporate Investors (a closed-end investment company advised by Babson Capital); Director (since 1979), TGC Industries, Inc. (geophysical services); Director and Secretary (since 2001 and from 1996-1997), Chase Packaging Corporation (agricultural services); Chairman and Director (since 2000), Rumson-Fair Haven Bank and Trust Company (commercial bank and trust company); and Director (since 1983), Executive Vice President, Secretary and Assistant Treasurer (since 2004), Supreme Industries, Inc. (specialized truck and body manufacturer).
Donald E. Benson (81) Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee (since 1988)	Term expires 2013	Executive Vice President and Director (since 1992), Marquette Financial Companies (financial services); Partner (since 1996), Benson Family Limited Partnership No. 1 and Benson Family Limited Partnership No. 2 (investment partnerships).	2	Director (1997-2008), MAIR Holdings, Inc. (commuter airline holding company); Director (since 1997), First California Financial Group, Inc. (bank holding company); and Trustee (since 1986), Babson Capital Corporate Investors (closed-end investment company advised by Babson Capital).



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INDEPENDENT TRUSTEES

Name (Age), Address

<p>Michael H. Brown (55)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>Trustee (since 2005)</p>	<p>Term expires 2014</p>	<p>Private Investor; and Managing Director (1994-2005), Morgan Stanley.</p>	<p>2</p>	<p>Trustee (since 2005), Babson Capital Corporate Investors (a closed-end investment company advised by Babson Capital); Independent Director (since 2006), Invicta Holdings LLC (a derivative trading company).</p>
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<p>Donald Glickman (78)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>Trustee (since 1992)</p>	<p>Term expires 2013</p>	<p>Chairman (since 1992), Donald Glickman and Company, Inc. (private investments); and Partner (since 1992), J.F. Lehman &amp; Co. (private investments).</p>	<p>2</p>	<p>Director (since 1984), Monro Muffler and Brake, Inc. (automobile repair service); Lead Director (1998 - 2009), MSC Software Corp. (simulation software); and Trustee (since 1992), Babson Capital Corporate Investors (closed-end investment company advised by Babson Capital).</p>
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## Babson Capital Participation Investors

## INDEPENDENT TRUSTEES

## Name (Age), Address

Name (Age), Address	Trustee	Term expires	Private Investor; and	2	Director (since 2004), Texas Roadhouse, Inc. (operates restaurant chain); Director (since 1999), ValueClick Inc. (internet advertising company); Director (2002- 2009), Spectranetics Corp. (medical device company); and Trustee (since 1991), Babson Capital Corporate Investors (closed-end investment company advised by Babson Capital).
Martin T. Hart (76) Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee (since 1991) / Nominee	Term expires 2012	Private Investor; and President and Director (since 1983), H Investment Company LLC (family partnership).	2	Director (since 2004), Texas Roadhouse, Inc. (operates restaurant chain); Director (since 1999), ValueClick Inc. (internet advertising company); Director (2002- 2009), Spectranetics Corp. (medical device company); and Trustee (since 1991), Babson Capital Corporate Investors (closed-end investment company advised by Babson Capital).
Maleyne M. Syracuse (55) Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189	Trustee (since 2007)	Term expires 2014	Private Investor; Managing Director (2000- 2007), JP Morgan Securities, Inc. (investments and banking)	2	Trustee (since 2007), Babson Capital Corporation Investors (a closed-end investment company advised by Babson Capital); Managing Director (1984 - 2000), Deutsche Bank/Bankers Trust Company.

## 2011 Annual Report

## OFFICERS OF THE TRUST

## Name (Age), Address

<p>Michael L. Klofas (51)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>President</p>	<p>Since 2009</p>	<p>President (since 2009), Vice President (1998-2009) of the Trust; Managing Director (since 2000), Babson Capital; President (since 2009), Vice President (2005-2009), CI Subsidiary Trust and PI Subsidiary Trust; President (since 2009), Vice President (1998-2009), Babson Capital Corporate Investors.</p>
<p>Christopher A. DeFrancis (45)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>Vice President and Secretary</p>	<p>Since 2010</p>	<p>Vice President and Secretary (since 2010) and Associate Secretary (2008-2010) of the Trust; Chief Compliance Officer (since 2011), Co-General Counsel, Secretary and Managing Director (since 2010), Senior Counsel, Assistant Secretary and Managing Director (2010) and Assistant Secretary and Counsel (2008-2009), Babson Capital; Counsel (2001-2009), Massachusetts Mutual Life Insurance Company; Vice President and Secretary (since 2010) and Assistant Secretary (2009-2010), CI Subsidiary Trust and PI Subsidiary Trust; and Vice President and Secretary (since 2010) and Associate Secretary (2008-2010), Babson Capital Corporate Investors.</p>
<p>James M. Roy (49)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189 Springfield, MA 01115-5189</p>	<p>Vice President and Chief Financial Officer</p>	<p>Since 2005</p>	<p>Vice President and Chief Financial Officer (since 2005), Treasurer (2003-2005), and Associate Treasurer (1999-2003) of the Trust; Managing Director (since 2005), and Director (2000-2005) of Babson Capital; Trustee (since 2005), Treasurer (since 2005), and Controller (2003-2005), CI Subsidiary Trust and PI Subsidiary Trust; and Vice President and Chief Financial Officer (since 2005), Treasurer (2003-2005) and Associate Treasurer (1999-2003), Babson Capital Corporate Investors.</p>
<p>John T. Davitt, Jr. (44)</p> <p>Babson Capital Participation Investors 1500 Main Street P.O. Box 15189</p>	<p>Comptroller</p>	<p>Since 2001</p>	<p>Comptroller (since 2001) of the Trust; Director (since 2000) of Babson Capital; Controller (since 2005), CI Subsidiary Trust and PI Subsidiary Trust; and Comptroller (since 2001), Babson Capital Corporate Investors.</p>

Springfield, MA  
01115-5189

Melissa M. LaGrant (38)	Chief Compliance Officer	Since 2006	Chief Compliance Officer (since 2006) of the Trust; Managing Director (since 2005) of Babson Capital; Vice President and Senior Compliance Trading Manager (2003-2005), Loomis, Sayles & Company, L.P.; Assistant Vice President-Business Risk Management Group (2002-2003), and Assistant Vice President-Investment Compliance (2001-2002), Zurich Scudder Investments/Deutsche Asset Management; and Chief Compliance Officer (since 2006), Babson Capital Corporate Investors.
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Babson Capital  
Participation  
Investors  
1500 Main Street  
P.O. Box 15189  
Springfield, MA  
01115-5189

Daniel J. Florence (39)	Treasurer	Since 2008	Treasurer (since 2008) and Associate Treasurer (2006-2008) of the Trust; Associate Director (since 2008), Analyst (2000-2008) of Babson Capital; and Treasurer (since 2008) and Associate Treasurer (2006-2008), Babson Capital Corporate Investors.
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Babson Capital  
Participation  
Investors  
1500 Main Street  
P.O. Box 15189  
Springfield, MA  
01115-5189

Babson Capital Participation Investors

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2011 Annual Report

Members of the Board of Trustees

Left to right:

Donald Glickman  
Chairman,  
Donald Glickman & Company,  
Inc.

Robert E. Joyal  
Retired President,  
Babson Capital Management LLC

William J. Barrett  
President,  
W J Barrett Associates, Inc.

Michael H. Brown\*  
Private Investor

Donald E. Benson\*  
Executive Vice President and  
Director,  
Marquette Financial Companies

Clifford M. Noreen  
President,  
Babson Capital Management LLC

Martin T. Hart  
Private Investor

Maleyne M. Syracuse\*  
Private Investor

\*Member of the Audit Committee

Officers

Clifford M. Noreen  
Chairman

Michael L. Klofas  
President

Babson Capital Participation Investors offers a Dividend Reinvestment and Cash Purchase 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



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James M. Roy  
Vice President & Chief Financial  
Officer

promptly after the dividend payment date.

Christopher A. DeFrancis  
Vice President & Secretary

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.

Sean Feeley  
Vice President

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.)

Michael P. Hermsen  
Vice President

Mary Wilson Kibbe  
Vice President

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.

Richard E. Spencer, II  
Vice President

Daniel J. Florence  
Treasurer

John T. Davitt, Jr.  
Comptroller

Melissa M. LaGrant  
Chief Compliance Officer



## ITEM 2. CODE OF ETHICS.

The Registrant adopted a Code of Ethics for Senior Financial Officers (the "Code") on October 17, 2003, which is available on the Registrant's website at [www.babsoncapital.com/mpv](http://www.babsoncapital.com/mpv). During the period covered by this Form N-CSR, there were no amendments to, or waivers from, the Code.

## ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Registrant's Board of Trustees has determined that Mr. Donald E. Benson, a Trustee of the Registrant and a member of its Audit Committee, is an audit committee financial expert. Mr. Benson is "independent" for purposes of this Item 3 as required by applicable regulation.

## ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

## Fees Billed to the Registrant

	KPMG LLP Year Ended December 31, 2011	KPMG LLP Year Ended December 31, 2010
Audit Fees	\$ 61,500	\$ 52,500
Audit-Related Fees	0	0
Tax Fees	44,100	44,100
All Other Fees	0	0
Total Fees	\$ 105,600	\$ 96,600

## Non-Audit Fees Billed to Babson Capital and MassMutual

	KPMG LLP Year Ended December 31, 2011	KPMG LLP Year Ended December 31, 2010
Audit-Related Fees	\$ 928,575	\$ 1,040,600
Tax Fees	9,000	64,704
All Other Fees	0	0
Total Fees	\$ 937,575	\$ 1,105,304

The category "Audit-Related Fees" reflects fees billed by KPMG for various non-audit and non-tax services rendered to the Registrant, Babson Capital Management LLC ("Babson Capital"), and Massachusetts Mutual Life Insurance Company ("MassMutual"), such as SAS 70 review, IFRS consulting and agreed upon procedures reports. Preparation of Federal, state and local income tax returns and tax compliance work are representative of the fees reported in the "Tax Fees" category. The category "All Other Fees" represents fees billed by KPMG for consulting rendered to Babson Capital and MassMutual. The Sarbanes-Oxley Act of 2002 and its implementing regulations allows the Registrant's Audit Committee to establish a pre-approval policy for certain services rendered by the Registrant's independent accountants. During 2011, the Registrant's Audit Committee approved all of the services rendered to the Registrant by KPMG and did not rely on such a pre-approval policy for any such services.



The Audit Committee has also reviewed the aggregate fees billed for professional services rendered by KPMG for 2010 and 2011 for the Registrant and for the non-audit services provided to Babson Capital, and Babson Capital's parent, MassMutual. As part of this review, the Audit Committee considered whether the provision of such non-audit services was compatible with maintaining the principal accountant's independence.

The 2010 fees billed represent final 2010 amounts, which may differ from the preliminary figures available as of the filing date of the Registrant's 2011 Annual Form N-CSR and includes, among other things, fees for services that may not have been billed as of the filing date of the Registrant's 2011 Annual Form N-CSR, but are now properly included in the 2010 fees billed to the Registrant, Babson Capital and MassMutual.

#### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The Registrant maintains an Audit Committee composed exclusively of Trustees of the Registrant who qualify as "independent" Trustees under the current listing standards of the New York Stock Exchange and the rules of the U.S. Securities and Exchange Commission. The Audit Committee operates pursuant to a written Audit Committee Charter, which is available (1) on the Registrant's website, [www.babsoncapital.com/mpv](http://www.babsoncapital.com/mpv); and (2) without charge, upon request, by calling, toll-free 866-399-1516. The current members of the Audit Committee are Donald E. Benson, Michael H. Brown and Maleyne M. Syracuse.

#### ITEM 6. SCHEDULE OF INVESTMENTS

A schedule of investments for the Registrant is included as part of this report to shareholders under Item 1 of this Form N-CSR.

#### ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Registrant's Board of Trustees has delegated proxy voting responsibilities relating to voting securities held by the Registrant to its investment adviser, Babson Capital Management LLC ("Babson Capital"). A summary of Babson Capital's proxy voting policies and procedures is set forth below.

##### Summary of Babson Capital's Proxy Voting Policy

Babson Capital views the voting of proxies as an integral part of its investment management responsibility and believes, as a general principle, that proxies should be acted upon (voted or abstained) solely in the best interest of its clients (i.e. in a manner it believes is most likely to enhance the economic value of the underlying securities held in client accounts). To implement this general principle, Babson Capital has engaged a proxy service provider (the "Service Provider"). The Service Provider is responsible for processing and maintaining records of proxy votes. In addition, the Service Provider has retained the services of an independent third party research provider (the "Research Provider") to provide research and recommendations on proxy voting. It is Babson Capital's Proxy Voting Policy to generally vote proxies in accordance with the recommendations of the Research Provider, or, in cases where the Research Provider has not made any recommendations with respect to a proxy, in accordance with the Research Provider's proxy voting guidelines (the "Guidelines"). If a proxy involves an issue on which the Research Provider has not made a recommendation or has not addressed in the Guidelines, it will be analyzed on a case-by-case basis.

Babson Capital recognizes, however, that there may be times when Babson Capital determines that it may be in the best interest of clients holding the securities to (1) vote against the Research Provider's recommendations or (2) in cases where the Research Provider has not provided Babson Capital with any recommendations with respect to a proxy, vote against the Research Provider's Guidelines. Babson Capital may vote, in whole or in part, against the Research Provider's recommendations or the Research Provider's Guidelines, as applicable. The procedures set forth in the Proxy Voting Policy are designed to ensure that votes against the Research Provider's recommendations or Guidelines have been made in the best interest of clients and are not the result of any material conflict of interest (a "Material Conflict"). For purposes of the Proxy Voting Policy, a Material Conflict shall mean any position, relationship or interest, financial or otherwise, of Babson Capital (or any person authorized under the Proxy Voting Policy to vote proxies on behalf of Babson Capital) that would or could reasonably be expected to affect Babson Capital's (or such person's) independence or judgment concerning how to vote proxies.

#### Summary of Babson Capital's Proxy Voting Procedures

Babson Capital will vote all client proxies for which it has proxy voting discretion in accordance with the Research Provider's recommendations or Guidelines, unless (i) a person authorized by the Best Execution and Proxy Committee (each a "Proxy Analyst"), the Best Execution and Proxy Committee or a designated member of the Best Execution and Proxy Committee, as applicable, determines that it is in the client's best interest to vote against the Research Provider's recommendation or Guidelines or (ii) Babson Capital is unable or determines not to vote a proxy in accordance with the Proxy Voting Policy. In these cases: if (i) a Proxy Analyst recommends that a proxy should be voted against the Research Provider's recommendation or Guidelines, (ii) no other Proxy Analyst reviewing such proxy disagrees with such recommendation, and (iii) no known Material Conflict is identified by the Proxy Analyst(s) or by a person designated by Babson Capital's Executive Committee Chair (the "Proxy Administrator"), the Proxy Administrator will vote the proxy or post the proxy for voting in accordance with the Proxy Analyst's recommendation. Otherwise, the proxy is to be submitted to a member of the Best Execution and Proxy Committee, who shall determine how to vote the proxy unless (i) the Proxy Analyst or Proxy Administrator has identified a Babson Capital Material Conflict or (ii) said Best Execution and Proxy Committee member has identified a Material Conflict personal to him or herself or a Babson Capital Material Conflict. In such cases, the proxy shall be submitted to the Best Execution and Proxy Committee, which may authorize a vote against the Research Provider's recommendation or Guidelines only if the Best Execution and Proxy Committee determines that such vote is in the client's best interests.

Nothing herein shall preclude Babson Capital from splitting a vote among different advisory clients in those cases where Babson Capital deems it appropriate.

No associate, officer, director or board of managers member of Babson Capital or its affiliates (other than those assigned such responsibilities under the Proxy Voting Policy) may influence how Babson Capital votes client proxies, unless such person has been requested to provide such assistance by a Proxy Analyst or Best Execution and Proxy Committee member and has disclosed any known Material Conflict. Any pre-vote communications prohibited by the Proxy Voting Policy shall be reported to a Best Execution and Proxy Committee member prior to voting and to Babson Capital's Chief Compliance Officer or General Counsel.

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### Obtaining a Copy of the Proxy Voting Policy

Clients may obtain a copy of Babson Capital's Proxy Voting Policy and information about how Babson Capital voted proxies related to their securities, free of charge, by contacting the Chief Compliance Officer, Babson Capital Management LLC, Independence Wharf, 470 Atlantic Avenue, Boston, MA 02210, or calling toll-free, 1-877-766-0014.

### ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The following disclosure item is made as of the date of this Form N-CSR unless otherwise indicated.

**PORTFOLIO MANAGER.** Michael L. Klofas serves as the President of the Registrant (since 2009) and as one of its Portfolio Managers. Mr. Klofas began his service to the Registrant in 1998 as a Vice President. With over 25 years of industry experience, Mr. Klofas is a Managing Director of the Mezzanine and Private Equity Group of Babson Capital Management LLC ("Babson Capital"). Mr. Klofas joined MassMutual in 1988. Prior to joining MassMutual, he spent two years at a small venture capital firm and two years at a national public accounting firm. At MassMutual and then Babson Capital, Mr. Klofas has analyzed and invested in traditional private placements and high yield public bonds. He also spent four years leading Babson Capital's workout and restructuring activities. Since 1993, he has focused on originating, analyzing, structuring and documenting mezzanine and private equity investments. Mr. Klofas holds a B.A. from Brandeis University and an M.B.A. from Babson College as well as a Certified Public Accountant designation. Mr. Klofas also presently serves as President of MassMutual Participation Investors, another closed-end management investment company advised by Babson Capital.

**PORTFOLIO MANAGEMENT TEAM.** Mr. Klofas has primary responsibility for overseeing the investment of the Registrant's portfolio, with the day-to-day investment management responsibility of the Registrant's portfolio being shared with the following Babson Capital investment professionals (together with the Portfolio Manager, the "Portfolio Team").

Michael P. Hermsen is a Vice President of the Registrant and a Managing Director of Babson Capital who oversees the Private Finance Group and manages Babson Capital's Mezzanine Investment and Private Equity Investments Team which is responsible for finding, analyzing, negotiating and servicing mezzanine private placement securities for the Registrant.

Mr. Hermsen joined MassMutual in 1990 and has been an officer of the Registrant since 1998. Previously, he worked at Teachers Insurance and Annuity Association where he was a generalist private placement analyst. At MassMutual and then Babson Capital, Mr. Hermsen has analyzed and invested in traditional private placements, high yield public and private bonds, and leveraged bank loans. He has also been responsible for managing a small portfolio of distressed investments. Since 1993, he has focused on originating, analyzing, structuring and documenting mezzanine and private equity investments. He holds a B.A. from Bowdoin College and an M.B.A. from Columbia University.

Mr. Spencer is a Vice President of the Registrant and a Managing Director of Babson Capital who also manages Babson Capital's Mezzanine and Private Equity Investments Team. Mr. Spencer joined MassMutual in 1989 after three years as a corporate loan analyst at a major New England bank. He has been an officer of the Registrant since 2002. At MassMutual and then Babson Capital, Mr. Spencer has analyzed and invested in traditional private placements, high yield public and private bonds, leveraged bank loans, mezzanine debt and private equity. From 1993 to 1999, he was the lead restructuring professional at Babson Capital. Since 1999, Mr. Spencer has been focused on the origination, analysis, structuring and documentation of mezzanine and private equity investments. He holds a B.A. from Bucknell University and an M.B.A. from the State University of New York at Buffalo.

Sean Feeley is responsible for the day-to-day management of the Registrant's public high yield and investment grade fixed income portfolio. Mr. Feeley has been a Vice President of the Registrant since 2011. Mr. Feeley is a Managing Director of Babson Capital and head of the High Yield Research Team with over 22 years of industry experience in high yield bonds and loans in various investment strategies. Prior to joining Babson Capital in 2003, he was a Vice President at Cigna Investment Management in project finance and a Vice President at Credit Suisse in leveraged loan finance. Mr. Feeley holds a B.S. from Canisius College and an M.B.A. from Cornell University. Mr. Feeley is a Certified Public Accountant and a Chartered Financial Analyst.

**OTHER ACCOUNTS MANAGED BY THE PORTFOLIO TEAM.** The members of the Registrant's portfolio Team also have primary responsibility for the day-to-day management of other Babson Capital advisory accounts, including, among others, closed-end and open-end investment companies, private investment funds, MassMutual-affiliated accounts, as well as separate accounts for institutional clients. These advisory accounts are identified below.

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PORTFOLIO TEAM	ACCOUNT CATEGORY	TOTAL NUMBER OF ACCOUNTS	NUMBER OF ACCOUNTS WITH APPROXIMATE TOTAL ASSET SIZE (A)	APPROXIMATE ASSET SIZE OF PERFORMANCE-BASED ADVISORY FEE	PERFORMANCE-BASED ADVISORY FEE ACCOUNTS (A)
Clifford M. Noreen (B)	Registered Investment Companies	1	\$241.9 million	0	N/A
	Other Pooled Investment Vehicles	7	\$223.3 million	7	\$223.3 million
	Other Accounts	0	N/A	0	N/A
Sean Feeley	Registered Investment Companies	3	\$541.5 million	0	N/A
	Other Pooled Investment Vehicles	2	\$1.7 billion	2	\$1.7 billion
	Other Accounts (C)	3	\$339.4 million	0	N/A
Michael P. Hermsen (D)	Registered Investment Companies	1	\$241.9 million	0	N/A
	Other Pooled Investment Vehicles (E)	6	\$1.2 billion	6	\$1.2 billion
	Other Accounts	0	N/A	0	N/A

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Michael L. Klofas	Registered Investment Companies	1	\$241.9 million	0	N/A
	Other Pooled Investment Vehicles (E)	0	N/A	0	N/A
	Other Accounts	0	N/A	0	N/A
Richard E. Spencer, II	Registered Investment Companies	1	\$241.9 million	0	N/A
	Other Pooled Investment Vehicles (E)	0	N/A	0	N/A
	Other Accounts	0	N/A	0	N/A

(A) Account asset size has been calculated as of December 31, 2011.

(B) Mr. Noreen, as head of Babson Capital's Fixed Income Group, has overall responsibility for investment grade publicly traded assets, including corporate debt securities, as well as structured credit products managed by Babson Capital. Except for the accounts noted in the table above, Mr. Noreen is not primarily responsible for the day-to-day management of the other accounts managed by Babson Capital's Fixed Income Group.

(C) Mr. Feeley manages the high yield sector of the general investment account of Massachusetts Mutual Life Insurance Company and C.M. Life Insurance Company; however these assets are not represented in the table above.

(D) Mr. Hermsen, as head of Babson Capital's Private Finance Group, has overall responsibility for public and private bonds, mezzanine and private equity investments.

(E) Messrs. Hermsen, Klofas and Spencer manage private placement mezzanine debt securities for the general investment account of Massachusetts Mutual Life Insurance Company and C.M. Life Insurance Company; however these assets are not represented in the table above.

**MATERIAL CONFLICTS OF INTEREST.** The potential for material conflicts of interest may exist as the members of the Portfolio Management Team, have responsibilities for the day-to-day management of multiple advisory accounts. These conflicts may be heightened to the extent the individual, Babson Capital and/or an affiliate has an investment in one or more of such accounts. Babson Capital has identified (and summarized below) areas where material conflicts of interest are most likely to arise, and has adopted policies and procedures that it believes are reasonable designed to address such conflicts.

**Transactions with Affiliates:** Babson Capital or its affiliates, including MassMutual and its affiliates, may from time to time, acting as principal, buy securities or other investments for itself from or sell securities or other investments it owns to its advisory clients. Likewise, Babson Capital may either directly or on behalf of MassMutual, purchase and/or hold securities or other investments that are subsequently sold or transferred to advisory clients. Babson Capital has a conflict of interest in connection with a transaction where it or an affiliate is acting as principal since it may have an incentive to favor itself or its affiliates over its advisory clients in connection with the transaction. To address these conflicts of interest, Babson Capital has adopted a Transactions with Affiliates Policy, which ensures any such transaction is consistent with Babson Capital's fiduciary obligations to act in the best interests of its clients, including its ability to obtain best execution in connection with the transaction, and is in compliance with applicable legal and regulatory requirements.

**Cross Trades:** Babson Capital may effect cross-trades on behalf of its advisory clients whereby one advisory client buys securities or other investments from or sells securities or other investments to another advisory client. Babson Capital may also effect cross-transactions involving advisory accounts or funds in which it or its affiliates, including MassMutual, and their respective employees, have an ownership interest or for which Babson Capital is entitled to earn a performance or incentive fee. As a result, Babson Capital has a conflict of interest in connection with the cross-transaction since it may have an incentive to favor the advisory client or fund in which it or its affiliate has an ownership interest and/or is entitled to a performance or incentive fee. To address these conflicts of interest, Babson Capital has adopted a Transactions with Affiliates Policy, which ensures any such cross-transaction is consistent with Babson Capital's fiduciary obligations to act in the best interests of each of its advisory clients, including its ability to obtain best execution for each advisory client in connection with the cross-trade transaction, and is in compliance with applicable legal and regulatory requirements. Babson Capital will not receive a commission or any other remuneration (other than its advisory fee) for effecting cross-transactions between advisory clients.

**Loan Origination Transactions:** While Babson Capital or its affiliates generally do not act as an underwriter or member of a syndicate in connection with a securities offering, Babson Capital or its affiliates (or an unaffiliated entity in which Babson Capital or its affiliates has an ownership interest) may act as an underwriter, originator, agent, or member of a syndicate in connection with the origination of senior secured loans or other lending arrangements with borrowers, where such loans may be purchased by Babson Capital advisory clients during or after the original syndication. Babson Capital advisory clients may purchase such loans directly from Babson Capital or its affiliates (or an unaffiliated entity in which Babson Capital or its affiliates has an ownership interest) or from other members of the lending syndicate. Babson Capital or its affiliates may directly or indirectly receive underwriting, origination, or agent fees in connection with such loan originations. As a result, Babson Capital has a conflict of interest in connection with such loan origination transactions since it has an incentive to base its investment recommendation to its advisory clients on the amount of compensation, underwriting, origination or agent fees it would receive rather than on its advisory clients' best interests. To address this conflict of interest, Babson Capital has adopted a Transactions with Affiliates Policy, which ensures any such transaction is consistent with Babson Capital's fiduciary obligations to act in the best interests of its clients, including its ability to obtain best execution in connection with the transaction, and is in compliance with applicable legal and regulatory requirements.

MML Investors Services, LLC (“MMLISI”), an indirect wholly-owned subsidiary of MassMutual, is an SEC-registered broker-dealer that may act as an introducing broker for the purpose of effecting securities transactions for brokerage customers. While a Babson Capital advisory client could request that MMLISI effect securities transactions for it that would result in commissions to MMLISI, currently no Babson Capital advisory client directs Babson Capital to effect securities transactions for its account through MMLISI.

**Investments by Advisory Clients:** Babson Capital may invest client assets in securities or other investments that are also held by (i) Babson Capital or its affiliates, including MassMutual, (ii) other Babson Capital advisory accounts, (iii) funds or accounts in which Babson Capital or its affiliates or their respective employees have an ownership or economic interest or (iv) employees of Babson Capital or its affiliates. Babson Capital may also, on behalf of its advisory clients, invest in the same or different securities or instruments of issuers in which (i) Babson Capital or its affiliates, including MassMutual, (ii) other Babson Capital advisory accounts, (iii) funds or accounts in which Babson Capital, its affiliates, or their respective employees have an ownership or economic interest or (iv) employees of Babson Capital or its affiliates, have an ownership interest as a holder of the debt, equity or other instruments of the issuer. Babson Capital has a conflict of interest in connection with any such transaction since investments by its advisory clients may directly or indirectly benefit Babson Capital and/or its affiliates and employees by potentially increasing the value of the securities or instruments it holds in the issuer. Any investment by Babson Capital on behalf of its advisory clients will be consistent with its fiduciary obligations to act in the best interests of its advisory clients, and otherwise be consistent with such clients’ investment objectives and restrictions.

Babson Capital or its affiliates may also recommend that clients invest in registered or unregistered investment companies, including private investment funds such as hedge funds, private equity funds or structured funds (i) advised by Babson Capital or an affiliate, (ii) in which Babson Capital, an affiliate or their respective employees has an ownership or economic interest or (iii) with respect to which Babson Capital or an affiliate has an interest in the entity entitled to receive the fees paid by such funds. Babson Capital has a conflict of interest in connection with any such recommendation since it may have an incentive to base its recommendation to invest in such investment companies or private funds on the fees that Babson Capital or its affiliates would earn as a result of the investment by its advisory clients in the investment companies or private funds. Any recommendation to invest in a Babson Capital advised fund or other investment company will be consistent with Babson Capital’s fiduciary obligations to act in the best interests of its advisory clients, consistent with such clients’ investment objectives and restrictions. Babson Capital may, in certain limited circumstances, offer to clients that invest in private investment funds that it advises an equity interest in entities that receive advisory fees and carried profits interest from such funds.

**Employee Co-Investment:** Babson Capital may permit certain of its portfolio managers and other employees to invest in private investment funds advised by Babson Capital or its affiliates and/or share in the performance or incentive fees received by Babson Capital from such funds. If the portfolio manager or other employee was responsible for both the portfolio management of the private fund and other Babson Capital advisory accounts, such person would have a conflict of interest in connection with investment decisions since the person may have an incentive to direct the best investment ideas, or to allocate trades, in favor of the fund in which he or she is invested or otherwise entitled to share in the performance or incentive fees received from such fund. To address these conflicts of interest, Babson Capital has adopted a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy which requires, among others things, that Babson Capital treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits Babson Capital from favoring any particular advisory account as a result of the ownership or economic interests of Babson Capital, its affiliates or employees, in such advisory account. Any investment by a Babson Capital employee in one of its private funds is also governed by Babson Capital’s Employee Co-Investment Policy, which ensures that any co-investment by a Babson Capital employee is consistent with Babson Capital’s Code of Ethics.

**Management of Multiple Accounts:** As noted above, Babson Capital’s portfolio managers are often responsible for the day-to-day management of multiple accounts, including, among others, separate accounts for institutional clients,

closed-end and open-end registered investment companies, and/or private investment funds (such as hedge funds, private equity funds and structured funds), as well as for proprietary accounts of Babson Capital and its affiliates, including MassMutual and its affiliates. The potential for material conflicts of interest exist whenever a portfolio manager has responsibility for the day-to-day management of multiple advisory accounts. These conflicts may be heightened to the extent a portfolio manager is responsible for managing a proprietary account for Babson Capital or its affiliates or where the portfolio manager, Babson Capital and/or an affiliate has an investment in one or more of such accounts or an interest in the performance of one or more of such accounts (e.g., through the receipt of a performance or incentive fee).

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**Investment Allocation:** Such potential conflicts include those relating to allocation of investment opportunities. For example, it is possible that an investment opportunity may be suitable for more than one account managed by Babson Capital, but may not be available in sufficient quantities for all accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by multiple accounts. A conflict arises where the portfolio manager has an incentive to treat an account preferentially because the account pays Babson Capital or its affiliates a performance-based fee or the portfolio manager, Babson Capital or an affiliate has an ownership or other economic interest in the account. As noted above, Babson Capital also acts as an investment manager for certain of its affiliates, including MassMutual. These affiliate accounts co-invest jointly and concurrently with Babson Capital's other advisory clients and therefore share in the allocation of such investment opportunities. To address these conflicts of interest associated with the allocation of trading and investment opportunities, Babson Capital has adopted an Investment Allocation Policy and trade allocation procedures that govern the allocation of portfolio transactions and investment opportunities across multiple advisory accounts, including affiliated accounts. In addition, as noted above, to address these conflicts of interest, Babson Capital has adopted a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy which requires, among others things, that Babson Capital treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits Babson Capital from favoring any particular advisory account as a result of the ownership or economic interests of Babson Capital, its affiliates or employees, in such advisory accounts. Any investment by a Babson Capital employee in one of its private funds is also governed by Babson Capital's Employee Co-Investment Policy, which ensures that any co-investment by a Babson Capital employee is consistent with Babson Capital's Code of Ethics.

**Personal Securities Transactions; Short Sales:** Potential material conflicts of interest may also arise related to the knowledge and timing of an account's trades, investment opportunities and broker selection. Babson Capital and its portfolio managers have information about the size, timing and possible market impact of the trades of each account they manage. It is possible that portfolio managers could use this information for their personal advantage and/or the advantage or disadvantage of various accounts which they manage. For example, a portfolio manager could, or cause a favored account to, "front run" an account's trade or sell short a security for an account immediately prior to another accounts sale of that security. To address these conflicts, Babson Capital has adopted policies and procedures, including a Short Sales Policy, which ensures that the use of short sales by Babson Capital is consistent with Babson Capital's fiduciary obligations to its clients, a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy, which requires, among other things, that Babson Capital treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits Babson Capital from favoring any particular account as a result of the ownership or economic interest of Babson Capital, its affiliates or employees and a Code of Ethics.

**Trade Errors:** Potential material conflicts of interest may also arise if a trade error occurs in a client account. A trade error is deemed to occur if there is a deviation by Babson Capital from the applicable standard of care in connection with the placement, execution or settlement of a trade for an advisory account that results in (1) Babson Capital purchasing securities not permitted or authorized by a client's investment advisory agreement or otherwise failing to follow a client's specific investment directives; (2) Babson Capital purchasing or selling the wrong security or the wrong amount of securities on behalf of a client's account; or (3) Babson Capital purchasing or selling securities for, or allocating securities to, the wrong client account. When correcting these errors, conflicts of interest between Babson Capital and its advisory accounts may arise as decisions are made on whether to cancel, reverse or reallocate the erroneous trades. In order to address these conflicts, Babson Capital has adopted an Errors Policy governing the resolution of trading errors, and will follow the Errors Policy in order to ensure that trade errors are handled promptly and appropriately and that any action taken to remedy an error places the interest of a client ahead of Babson Capital's interest.

**Best Execution; Directed Brokerage:** With respect to securities transactions for most of the accounts it manages, Babson Capital determines which broker to use to execute each order, consistent with its fiduciary duty to seek best execution of the transaction. Babson Capital manages certain accounts, however, for clients who limit its discretion

with respect to the selection of brokers or direct it to execute such client's transaction through a particular broker. In these cases, trades for such an account in a particular security may be placed separately from, rather than aggregated with, those in the same security for other accounts. Placing separate transaction orders for a security may temporarily affect the market price of the security or otherwise affect the execution of the transaction to the possible detriment of one or more of the other account(s) involved. In order to address these conflicts, Babson Capital has adopted a Best Execution Policy, which establishes the necessary controls to satisfy its obligations regarding best execution and ensures it places advisory client trades in such a manner that the advisory client's total costs or proceeds are the most favorable under the circumstances, and a Directed Brokerage Policy, which ensures all directed brokerage instructions are executed in accordance with written client instructions and applicable legal requirements.

Babson Capital and its portfolio managers or employees may have other actual or potential conflicts of interest in managing an advisory account, and the list above is not a complete description of every conflict of interest that could be deemed to exist.

COMPENSATION. The current Babson Capital compensation and incentive program for investment professionals is designed to attract, motivate and retain high-performing individuals.

To help Babson Capital make informed decisions, Babson Capital participates in annual compensation surveys of investment management firms using McLagan Partners, in addition to other industry specific resources. The firms selected for periodic peer-group comparisons typically have similar asset size or business mix. Annually, a review is conducted of total compensation versus market, to ensure that individual pay is competitive with the defined overall market.

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The compensation package for the members of the Portfolio Team is comprised of a market-driven base salary, a performance-driven annual bonus, and discretionary long-term incentives. The performance-driven annual bonus is based on the overall performance of Babson Capital as well as the performance of the accounts managed by the members of the Portfolio Team relative to appropriate benchmarks, including with respect to the Registrant, to the Russell 2000 Index and Lehman Brothers U.S. Corporate High Yield Index. Performance of the Registrant, like other accounts Portfolio Team members manage, are evaluated on a pre-tax basis, and are reviewed over one and three-year periods, with greater emphasis given to the latter. There are other factors that affect bonus awards to a lesser extent, such as client satisfaction, teamwork, and the assets under management. Such factors are considered as a part of the overall annual bonus evaluation process by the management of Babson Capital.

Long-Term incentives are designed to share with participants the longer-term value created in Babson Capital. Long-term incentives may take the form of deferred cash awards (including deferred cash awards that provide a portfolio manager with the economic equivalent of a "shareholder" interest in Babson Capital by linking the value of the award to a formula which ties to the value of the business), and/or, in the case of a portfolio manager who manages a private investment fund with a performance fee, a deferred cash award or a direct profit sharing interest that results in the portfolio manager receiving amounts based on the amount of the performance fee paid by such fund. These long-term incentives vest over time and are granted annually, based upon the same criteria used to determine the performance-driven annual bonus detailed above. Because the Portfolio Team members are generally responsible for multiple accounts (including the Registrant), they are compensated on the overall performance of the accounts that they manage, rather than a specific account, except for the portion of compensation relating to any performance fee award.

**BENEFICIAL OWNERSHIP.** As of December 31, 2011, members of the Portfolio Team beneficially owned the following dollar range of equity securities in the Registrant:

Portfolio Team:	Dollar Range of Beneficially Owned* Equity Securities of the Registrant:
Clifford M. Noreen	None
Sean Feeley	None
Michael P. Hermsen	\$10,001-\$50,000
Michael L. Klofas	None
Richard E. Spencer II	None

\*Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) under the Securities Exchange Act of 1934, as amended. (Shares "beneficially owned" include the number of shares of the Registrant represented by the value of a Registrant-related investment option under Babson Capital's non-qualified deferred compensation plan for certain officers of Babson Capital (the "Plan"). The Plan has an investment option that derives its value from the market value of the Registrant's shares. However, neither the Plan nor the participation in the Plan has an actual ownership interest in the Registrant's shares.)

**ITEM PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.**

Not applicable for this filing.

**ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not applicable for this filing.



ITEM 11. CONTROLS AND PROCEDURES.

- (a) The principal executive officer and principal financial officer of the Registrant evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as of a date within 90 days of the filing date of this report and based on that evaluation have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
- (b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) during the Registrant's second fiscal half year that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

- (a)(1) ANY CODE OF ETHICS, OR AMENDMENTS THERETO, THAT IS THE SUBJECT OF DISCLOSURE REQUIRED BY ITEM 2, TO THE EXTENT THAT THE REGISTRANT INTENDS TO SATISFY THE ITEM 2 REQUIREMENTS THROUGH THE FILING OF AN EXHIBIT.

None.

- (a)(2) A SEPARATE CERTIFICATION FOR EACH PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER OF THE REGISTRANT AS REQUIRED BY RULE 30a-2 UNDER THE ACT.

Attached hereto as EX-99.31.1

Attached hereto as EX-99.31.2

- (a)(3) ANY WRITTEN SOLICITATION TO PURCHASE SECURITIES UNDER RULE 23c-1 UNDER THE ACT (17 CFR 270.23c-1) SENT OR GIVEN DURING THE PERIOD COVERED BY THE REPORT BY OR ON BEHALF OF THE REGISTRANT TO 10 OR MORE PERSONS.

Not applicable for this filing.

- (b) CERTIFICATIONS PURSUANT TO RULE 302-2(b) UNDER THE ACT.

Attached hereto as EX-99.32

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant): Babson Capital Participation Investors

By: /s/ Michael L. Klofas  
Michael L. Klofas, President

Date: March 9, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Michael L. Klofas  
Michael L. Klofas, President

Date: March 9, 2012

By: /s/ James M. Roy  
James M. Roy, Vice President and  
Chief Financial Officer

Date: March 9, 2012