

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-Q

November 29, 2012

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

FORM N-Q

Quarterly Schedule of Portfolio Holdings of
Registered Management Investment Company

Investment Company Act file number 811-05531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

1500 Main Street, Springfield, MA 01115

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis, Vice President and Secretary
1500 Main Street, Suite 2800, Springfield, MA 01115

(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: 09/30/12

ITEM 1. SCHEDULE OF INVESTMENTS

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2012

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 81.54%: (A)				
Private Placement Investments - 74.83%				
A E Company, Inc. A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.	184,615 shs.	11/10/09	\$184,615	\$173,352
Common Stock (B)				
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	92,308 shs.	11/10/09	68,566 253,181	86,676 260,028
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	\$1,426,441	11/21/07	1,411,770	1,426,441
Limited Partnership Interest (B)	12.26% int.	11/21/07	119,009 1,530,779	165,122 1,591,563
A S A P Industries LLC A designer and manufacturer of components used on oil and natural gas wells.				
Limited Liability Company Unit Class A-2 (B)	676 uts.	12/31/08	74,333	337,245
Limited Liability Company Unit Class A-3 (B)	608 uts.	12/31/08	66,899 141,232	303,523 640,768
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	1,103,979	1,239,546
Limited Liability Company Unit Class A (B)	2,186 uts.	*	214,793	296,506
Limited Liability Company Unit Class B (B)	1,473 uts.	10/09/09	144,716	199,795
* 10/09/09 and 10/27/10.			1,463,488	1,735,847
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	-

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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
ABC Industries, Inc.				
A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 2019	\$ 600,000	08/01/12	537,925	600,808
Preferred Stock Series A (B)	150,000 shs.	08/01/12	150,000	142,500
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	26,897 shs.	08/01/12	50,935 738,860	269 743,577

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors
September 30, 2012
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Advanced Technologies Holdings				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	546 shs.	12/27/07	\$270,000	\$675,720
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	34,416
			291,600	710,136
All Current Holding Company				
A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
12% Senior Subordinated Note due 2015	\$603,697	09/26/08	573,331	603,697
Common Stock (B)	713 shs.	09/26/08	71,303	97,307
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	69,193
			691,218	770,197
American Hospice Management Holding LLC				
A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2013	\$1,687,503	*	1,665,322	1,687,503
Preferred Class A Unit (B)	1,706 uts.	**	170,600	336,093
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	93,970
Common Class B Unit (B)	16,100 uts.	01/22/04	1	-
Common Class D Unit (B)	3,690 uts.	09/12/06	-	-
			1,916,712	2,117,566
* 01/22/04 and 06/09/08.				
** 01/22/04 and 09/12/06.				
Apex Analytix Holding Corporation				
A provider of audit recovery and fraud detection services and software to commercial and retail businesses in the U.S. and Europe.				
12.5% Senior Subordinated Note due 2017	\$ 1,012,500	04/28/09	918,235	1,012,500
Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	98,751
Common Stock (B)	723 shs.	04/28/09	723	44,012
			1,081,227	1,155,263
Arch Global Precision LLC				
A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$ 766,098	12/21/11	747,852	802,826
Limited Liability Company Unit Class B (B)	28 uts.	12/21/11	28,418	37,046
Limited Liability Company Unit Class C (B)	222 uts.	12/21/11	221,582	288,834

997,852

1,128,706

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Arrow Tru-Line Holdings, Inc.				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
8% Senior Subordinated Note due 2014 (D)				
	\$ 1,054,025	05/18/05	\$ 964,526	\$ 895,921
Preferred Stock (B)				
	33 shs.	10/16/09	33,224	-
Common Stock (B)				
	263 shs.	05/18/05	263,298	-
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)				
	69 shs.	05/18/05	59,362	-
			1,320,410	895,921
Associated Diversified Services				
A provider of routine maintenance and repair services primarily to electric utility companies predominantly on electric power distribution lines.				
10% Senior Secured Term Note due 2016 (C)				
	\$ 252,000	09/30/10	247,385	255,860
13% Senior Subordinated Note due 2017				
	\$ 332,000	09/30/10	302,891	332,000
Limited Liability Company Unit Class B (B)				
	36,000 uts.	09/30/10	36,000	44,215
Limited Liability Company Unit Class B (B)				
	27,520 uts.	09/30/10	27,520	33,800
			613,796	665,875
Baby Jogger Holdings LLC				
A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019				
	\$ 932,861	04/20/12	915,181	950,511
Common Stock (B)				
	754 shs.	04/20/12	75,376	88,336
			990,557	1,038,847
Barcodes Group, Inc.				
A distributor and reseller of automatic identification and data capture equipment, including mobile computers, scanners, point-of-sale systems, labels, and accessories.				
13.5% Senior Subordinated Note due 2016				
	\$ 651,735	07/27/10	628,369	658,252
Preferred Stock (B)				
	13 shs.	07/27/10	131,496	131,500
Common Stock Class A (B)				
	44 shs.	07/27/10	437	98,887

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Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	8 shs.	07/27/10	76 760,378	17,160 905,799
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	1,184,711	301,976
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 1,375,569	- 301,976

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors
September 30, 2012
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
C D N T, Inc.				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
10.5% Senior Secured Term Note due 2014	\$ 187,718	08/07/08	\$ 186,309	\$ 187,718
12.5% Senior Subordinated Note due 2015	\$ 429,070	08/07/08	407,142	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	48,060
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965 668,276	37,789 702,637
Capital Specialty Plastics, Inc.				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	567,149
* 12/30/97 and 05/29/99.				
CHG Alternative Education Holding Company				
A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs.				
13.5% Senior Subordinated Note due 2018		\$731,111	01/19/11	694,916
14% Senior Subordinated Note due 2019		\$188,104	08/03/12	184,409
Common Stock (B)		375 shs.	01/19/11	37,500
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)		295 shs.	01/19/11	29,250 946,075
				25,128 997,564
Church Services Holding Company				
A provider of diversified residential services to homeowners in Houston, Dallas, and Austin markets.				
14.5% Senior Subordinated Note due 2018		\$404,099	03/26/12	391,192
Common Stock (B)		1,327 shs.	*	132,700
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)		57 shs.	03/26/12	5,740
* 03/26/12, 05/25/12 and 06/19/12.				
				529,632
				614,326
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)		147 shs.	12/02/08	146,594
				90,972

Coeur, Inc.

A producer of proprietary, disposable power injection syringes.

12% Senior Subordinated Note due 2016	\$642,857	10/10/08	603,968	642,857
Common Stock (B)	321 shs.	10/10/08	32,143	50,721
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	495 shs.	10/10/08	48,214	78,031
			684,325	771,609

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	16,614
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	12,018
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	135,051
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	222
			861,668	857,851
Connor Sport Court International, Inc.				
A designer and manufacturer of outdoor and indoor synthetic sports flooring and other temporary flooring products.				
Preferred Stock Series B-2 (B)	9,081 shs.	07/05/07	370,796	899,880
Preferred Stock Series C (B)	3,748 shs.	07/05/07	125,207	371,430
Common Stock (B)	380 shs.	07/05/07	4	-
Limited Partnership Interest (B)	6.88% int.	*	103,135	-
* 08/12/04 and 01/14/05.			599,142	1,271,310
CorePharma LLC				
A manufacturer of oral dose generic pharmaceuticals targeted at niche applications.				
Warrant, exercisable until 2013, to purchase common stock at \$.001 per share (B)	10 shs.	08/04/05	72,617	575,888
Crane Rental Corporation				
A crane rental company since 1960, headquartered in Florida.				
13% Senior Subordinated Note due 2015	\$1,215,000	08/21/08	1,145,923	1,193,511
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	-
			1,384,066	1,193,511
Custom Engineered Wheels, Inc.				
A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs.				
12.5% Senior Subordinated Note due 2016	\$ 1,025,480	10/27/09	929,568	1,044,151
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	143,394
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	104,767

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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	-
			1,254,389	1,292,312

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors
 September 30, 2012
 (Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
DPC Holdings LLC				
A provider of accounts receivable management and revenue cycle management services to customers in the healthcare, financial and utility industries.				
14% Senior Subordinated Note due 2018	\$1,132,147	*	\$1,112,017	\$1,157,662
Limited Liability Company Unit Class A (B)	13,548 uts.	*	135,477	86,345
* 10/21/11 and 08/03/12.			1,247,494	1,244,007
DPL Holding Corporation				
A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.				
14% Senior Subordinated Note due 2019	\$1,031,038	05/04/12	1,011,511	1,071,620
Preferred Stock (B)	20 shs.	05/04/12	204,546	207,090
Common Stock (B)	20 shs.	05/04/12	22,727	11,416
			1,238,784	1,290,126
Duncan Systems, Inc.				
A distributor of windshields and side glass for the recreational vehicle market.				
10% Senior Secured Term Note due 2013	\$154,286	11/01/06	153,814	153,439
13% Senior Subordinated Note due 2014	\$488,572	11/01/06	467,636	481,911
Common Stock (B)	102,857 shs.	11/01/06	102,857	7,934
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	44,663	2,491
			768,970	645,775
E S P Holdco, Inc.				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
14% Senior Subordinated Note due 2015	\$ 1,291,694	01/08/08	1,278,527	1,291,694
Common Stock (B)	349 shs.	01/08/08	174,701	183,720
			1,453,228	1,475,414
E X C Acquisition Corporation				
A manufacturer of pre-filled syringes and pump systems used for intravenous drug delivery.				
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	11 shs.	06/28/04	40,875	14,003
Eatem Holding Company				

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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	850,538	959,204
Common Stock (B)	50 shs.	02/01/10	50,000	41,934
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	119 shs.	02/01/10	107,100	99,988
			1,007,638	1,101,126

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2012

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
ELT Holding Company				
A provider of web-based ethics and compliance training solutions for companies in the United States.				
14% Senior Subordinated Note due 2019	\$ 919,880	03/01/12	\$ 902,711	\$ 935,478
Common Stock (B)	41 shs.	03/01/12	90,909	67,611
			993,620	1,003,089
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 2017	\$ 1,260,099	10/06/08	1,247,896	1,260,099
14% Senior Subordinated Note due 2017	\$ 341,433	03/02/12	335,359	358,504
Preferred Stock Series A (B)	232 shs.	*	23,200	33,367
Preferred Stock Series B (B)	2,298 shs.	10/06/08	229,804	330,504
Common Stock (B)	1,625 shs.	10/06/08	1,625	172,866
* 12/30/10 and 07/01/11.			1,837,884	2,155,340
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	\$ 889,469	09/27/10	876,804	898,363
Limited Liability Company Units Preferred (B)	171 uts.	09/27/10	153,659	176,968
Limited Liability Company Units (B)	171 uts.	09/27/10	17,073	125,154
			1,047,536	1,200,485
F G I Equity LLC				
A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings.				
14.25% Senior Subordinated Note due 2016	\$ 448,226	12/15/10	438,550	457,191
14.25% Senior Subordinated Note due 2016	\$ 111,477	02/29/12	111,513	114,822
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	122,933
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	15,412
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	12,187
			639,100	722,545
F H Equity LLC				

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A designer and manufacturer of a full line of automatic transmission filters and filtration systems for passenger vehicles.

14% Senior Subordinated Note due 2017	\$ 518,337	12/20/10	501,134	518,337
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	12,550
			517,143	530,887

Flutes, Inc.

An independent manufacturer of micro fluted corrugated sheet material for the food and consumer products packaging industries.

10% Senior Secured Term Note due 2013 (D)	\$524,791	04/13/06	519,050	209,916
14% Senior Subordinated Note due 2013 (D)	\$317,177	04/13/06	290,908	-
			809,958	209,916

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors
September 30, 2012
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Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
G C Holdings				
A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.				
12.5% Senior Subordinated Note due 2017	\$1,000,000	10/19/10	\$946,077	\$1,020,000
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	46,958	266,803
			993,035	1,286,803
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	90,675
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	90,675
Handi Quilter Holding Company				
A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.				
12% Senior Subordinated Note due 2017	\$461,539	11/14/11	430,233	479,445
Common Stock (B)	38 shs.	11/14/11	38,461	42,021
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	28 shs.	11/14/11		