

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-Q

May 30, 2013

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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

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(Exact name of registrant as specified in charter)

1500 Main Street, Springfield, MA 01115

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(Address of principal executive offices) (Zip code)

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

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(Name and address of agent for service)

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

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Date of fiscal year end: 12/31

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Date of reporting period: 03/31/13

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CONSOLIDATED SCHEDULE OF INVESTMENTS

Babson Capital Participation Investors

March 31, 2013

(Unaudited)

|  | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost         | Fair Value   |
|--|--|---------------------|--------------|--------------|
| Corporate Restricted Securities - 78.09%: (A)  |  |                     |              |              |
| Private Placement Investments - 72.86%   |  |                     |              |              |
| 1492 Acquisition LLC   |  |                     |              |              |
| A leading producer of premium Italian cured meats and deli meats in the U.S.   |  |                     |              |              |
| 14% Senior Subordinated Note due 2019  | \$ 1,146,677   | 10/17/12            | \$ 1,124,848 | \$ 1,127,435 |
| Limited Liability Company Unit Class A Common (B)  | 11,364 uts.  | 10/17/12            | 11,364       | 10,873       |
| Limited Liability Company Unit Class A Preferred (B)   | 102 uts.   | 10/17/12            | 102,270      | 103,974      |
|  |  |                     | 1,238,482    | 1,242,282    |
| A E Company, Inc.  |  |                     |              |              |
| A designer and manufacturer of machined parts and assembly structures for the commercial and military aerospace industries.  |  |                     |              |              |
| Common Stock (B)   | 184,615 shs.   | 11/10/09            | 184,615      | 403,583      |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)   | 92,308 shs.  | 11/10/09            | 68,566       | 201,793      |
|  |  |                     | 253,181      | 605,376      |
| A H C Holding Company, Inc.  |  |                     |              |              |
| A designer and manufacturer of boilers and water heaters for the commercial sector.  |  |                     |              |              |
| Limited Partnership Interest (B)   | 12.26% int.  | 11/21/07            | 119,009      | 150,975      |
| 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. |  |                     |              |              |
| Limited Liability Company Unit Class A (B)   | 2,186 uts.   | *                   | 78,340       | 87,388       |
| Limited Liability Company Unit Class B (B)   | 1,479 uts.   | 10/09/09            | 52,999       | 59,125       |
| * 10/09/09 and 10/27/10.   |  |                     | 131,339      | 146,513      |
| 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      | 315,000      |
| 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      | 315,000      |
| ABC Industries, Inc.   |  |                     |              |              |
| A manufacturer of mine and tunneling ventilation products in the U.S.  |  |                     |              |              |

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|   |              |          |                   |              |
|---|--------------|----------|-------------------|--------------|
| 13% Senior Subordinated Note due 2019   | \$500,000    | 08/01/12 | 450,515           | 495,961      |
| Preferred Stock Series A (B)  | 125,000 shs. | 08/01/12 | 125,000           | 112,785      |
| Warrant, exercisable until 2022, to purchase<br>common stock at \$.01 per share (B) | 22,414 shs.  | 08/01/12 | 42,446<br>617,961 | -<br>608,746 |

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) Babson Capital Participation Investors  
 March 31, 2013  
 (Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|--|---|------------------|-----------|------------|
| <b>ACP Cascade Holdings LLC</b>  |   |                  |           |            |
| A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.           |   |                  |           |            |
| Limited Liability Company Unit Class B (B)   | 32 uts.   | 11/09/12         | \$-       | \$-        |
| <b>Advanced Manufacturing Enterprises LLC</b>  |   |                  |           |            |
| A designer and manufacturer of large, custom gearing products for a number of critical customer applications.        |   |                  |           |            |
| 14% Senior Subordinated Note due 2018  | \$1,134,615   | 12/07/12         | 1,118,177 | 1,120,653  |
| Limited Liability Company Unit (B)   | 1,154 uts.  | 12/07/12         | 115,385   | 87,487     |
|  |   |                  | 1,233,562 | 1,208,140  |
| <b>Advanced Technologies Holdings</b>  |   |                  |           |            |
| A provider of factory maintenance services to industrial companies.  |   |                  |           |            |
| Preferred Stock Series A (B)   | 421 shs.  | 12/27/07         | 208,456   | 742,136    |
| Convertible Preferred Stock Series B (B)   | 28 shs.   | 01/04/11         | 21,600    | 48,958     |
|  |   |                  | 230,056   | 791,094    |
| <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         | 577,603   | 603,697    |
| Common Stock (B)   | 713 shs.  | 09/26/08         | 71,303    | 123,937    |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)                                     | 507 shs.  | 09/26/08         | 46,584    | 88,129     |
|  |   |                  | 695,490   | 815,763    |
| <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   | *                | 1,673,898 | 1,687,503  |
| Preferred Class A Unit (B)   | 1,706 uts.  | **               | 170,600   | 233,624    |
| Preferred Class B Unit (B)   | 808 uts.  | 06/09/08         | 80,789    | 171,901    |
| Common Class B Unit (B)  | 16,100 uts.   | 01/22/04         | 1         | -          |
| Common Class D Unit (B)  | 3,690 uts.  | 09/12/06         | -         | -          |
|  |   |                  | 1,925,288 | 2,093,028  |
| * 01/22/04 and 06/09/08.   |   |                  |           |            |
| ** 01/22/04 and 09/12/06.  |   |                  |           |            |
| <b>AMS Holding LLC</b>   |   |                  |           |            |
| A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches. |   |                  |           |            |
| 14.25% Senior Subordinated Note due 2019   | \$1,148,898   | 10/04/12         | 1,127,132 | 1,135,496  |
| Limited Liability Company Unit Class A Preferred (B)   | 114 uts.  | 10/04/12         | 113,636   | 113,630    |

1,240,768 1,249,126

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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2013

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal<br>Amount,<br>Shares, Units<br>or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost | Fair<br>Value |
|--|--|---------------------|------|---------------|
|--|--|---------------------|------|---------------|

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 |  |  |  |
|---|--------------|--|--|--|