

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

---

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number      811-2183

Babson Capital Corporate Investors

---

(Exact name of registrant as specified in charter)

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

---

(Address of principal executive offices) (Zip code)

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

---

(Name and address of agent for service)

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

Date of fiscal year end:      12/31

Date of reporting period:      12/31/11

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

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

Edgar Filing: BABSON CAPITAL CORPORATE INVESTORS - 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, 100 F Street NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

---

---

ITEM 1. REPORT TO STOCKHOLDERS.

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

---





babson capital corporate investors

Babson Capital Corporate Investors is a closed-end investment company, first offered to the public in 1971, whose shares are traded on the New York Stock Exchange.

investment objective & policy

Babson Capital Corporate Investors (the "Trust") is a closed-end investment company, first offered to the public in 1971, whose shares are traded on the New York Stock Exchange under the trading symbol "MCI". The Trust's share price can be found in the financial section of newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

The Trust's investment objective is to maintain a portfolio of securities providing a fixed yield and at the same time offering an opportunity for capital gains. The Trust's principal investments are privately placed, below-investment grade, long-term debt obligations with equity features such as warrants, conversion rights, or other equity features and, occasionally, preferred stocks. The Trust typically purchases these investments, which are not publicly tradable, directly from their issuers in private placement transactions. These investments are typically mezzanine debt instruments with accompanying private equity securities made to small or middle market companies. In addition, the Trust may temporarily invest, subject to certain limitations, in marketable investment grade debt securities, other marketable debt securities (including high yield securities) and marketable common stocks. 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.

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. The Trust pays dividends to its shareholders in cash, unless the shareholder elects to participate in the Dividend Reinvestment and Share Purchase Plan.

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 Corporate Investors

---

\*Data for Babson Capital Corporate 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.

---

---

**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 Corporate Investors to Babson Capital Corporate 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 1971, 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, "MCI", is unchanged.

**PORTFOLIO PERFORMANCE**

The Trust's net total portfolio rate of return for 2011 was 12.0%, 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 \$241,943,534, or \$12.69 per share, as of December 31, 2011. This compares to \$237,584,875, or \$12.56 per share, as of December 31, 2010. The Trust paid a quarterly dividend of \$0.30 per share for each of the four quarters of 2011, up 11.1% from the \$0.27 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 \$1.35 per share. This represents a 25% increase over the \$1.08 per share of total dividends paid in 2010. Net investment income for the year was \$1.29 per share, including approximately \$0.12 per share of non-recurring income, representing a 14.2% increase over 2010 net investment income of \$1.13 per share, which also included approximately \$0.05 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 17.7% during the year, from \$15.28 as of December 31, 2010 to \$17.99 as of December 31, 2011. This increase is on top of the 21.8% price appreciation that the Trust's stock price enjoyed in 2010. The Trust's stock price of \$17.99 as of December 31, 2011 equates to a 41.8% premium over the December 31, 2011 net asset value per share of \$12.69. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 11.4%, 12.9% and 10.8%, 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, 10 and 25 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	12.00%	4.98%	-4.17%
3 Years	14.76%	24.12%	15.63%
5 Years	8.06%	7.54%	0.15%
10 Years	12.66%	8.85%	5.62%
25 Years	12.82%	8.47%	8.67%

Past performance is no guarantee of future results.



3

---

Babson Capital Corporate Investors

---

## PORTFOLIO ACTIVITY

New investment activity for the Trust was very sporadic once again in 2011. In the first three quarters of the year, the Trust completed six new private placement investments. In the fourth quarter, the Trust completed seven new investments. For the full year 2011, the Trust closed 13 new private placement investments and seven add-on investments in existing portfolio companies. Total private placement investments purchased in 2011 were \$36,603,116. 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 \$56,077,054, 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.

---

4

---

## 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 25% 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 Corporate 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	Record Date	Net Investment Income	Short-Term Gains	Tax Effect	Long-Term Gains
Regular	4/25/2011	0.3000	-		-
	8/1/2011	0.3000	-		-
	10/31/2011	0.3000	-		-
	12/30/2011	0.3000	-		-
Special	12/30/2011	0.1402	0.0098		-
		\$1.3402	\$ 0.0098	\$ 1.3500	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	0.0550	Line 1a
Long-Term Gains Retained	0.0550	
Taxes Paid	0.0193	Line 2 *
Basis Adjustment	0.0357	**

\* 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.

\*\*

Edgar Filing: BABSON CAPITAL CORPORATE INVESTORS - Form N-CSR

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).

Annual dividend	Qualified for dividend		Qualified dividends****		Interest earned on U.S. Gov't. Obligations	
	Received deduction***	Amount	Amount	Amount	Amount	Amount
Per share	Percent	Per share	Percent	Per share	Percent	Per share
\$1.35	3.3339%	0.0449	2.6859%	0.0362	0%	0.0000

\*\*\* Not available to individual shareholders

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

Babson Capital Corporate Investors

---

This page left intentionally blank.

---

6

---



## Babson Capital Corporate Investors

---

consolidated statement of assets and liabilities  
December 31, 2011

## Assets:

## Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$254,260,292 )	\$237,305,760
Corporate restricted securities at market value (Cost - \$10,147,208)	10,173,888
Corporate public securities at market value (Cost - \$21,434,959)	21,311,676
Short-term securities at amortized cost	4,256,892
Total investments (Cost - \$290,099,351)	273,048,216
Cash	6,800,835
Interest receivable	2,673,836
Other assets	174,893
 Total assets	 282,697,780

## Liabilities:

Note payable	30,000,000
Dividend payable	8,581,595
Deferred tax liability	993,735
Investment advisory fee payable	756,074
Interest payable	202,105
Accrued expenses	220,737
 Total liabilities	 40,754,246

Total net assets	\$241,943,534
------------------	---------------

## Net Assets:

Common shares, par value \$1.00 per share	\$19,070,210
Additional paid-in capital	108,221,597
Retained net realized gain on investments, prior years	127,807,139
Undistributed net investment income	2,871,012
Accumulated net realized gain on investments	2,018,446
Net unrealized depreciation of investments	(18,044,870 )
 Total net assets	 \$241,943,534

Common shares issued and outstanding (23,663,744 authorized)	19,070,210
--	------------

Net asset value per share	\$12.69
---------------------------	---------

See Notes to Consolidated Financial Statements



8

---

---

consolidated statement of operations  
For the year ended December 31, 2011

Investment Income:	
Interest	\$ 29,409,659
Dividends	455,983
Other	135,500
 Total investment income	 30,001,142
Expenses:	
Investment advisory fees	3,100,620
Interest	1,584,000
Trustees' fees and expenses	370,100
Professional fees	268,107
Reports to shareholders	110,000
Transfer agent	54,000
Custodian fees	38,000
Other	59,089
 Total expenses	 5,583,916
 Investment income - net	 24,417,226
Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	1,235,896
Income tax expense	(387,518 )
Net realized gain on investments after taxes	848,378
Net change in unrealized depreciation of investments before taxes	2,865,226
Net change in deferred income tax expense	(523,816 )
Net change in unrealized depreciation of investments after taxes	2,341,410
 Net gain on investments	 3,189,788
 Net increase in net assets resulting from operations	 \$ 27,607,014

See Notes to Consolidated Financial Statements

---

## Babson Capital Corporate Investors

consolidated statement of cash flows  
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	\$ 19,805,038
Purchases of portfolio securities	(72,741,350)
Proceeds from disposition of portfolio securities	57,384,745
Interest, dividends and other income received	23,754,371
Interest expense paid	(1,584,000 )
Operating expenses paid	(4,004,252 )
Income taxes paid	(818,159 )
Net cash provided by operating activities	21,796,393

Cash flows from financing activities:

Cash dividends paid from net investment income	(22,199,952)
Receipts for shares issued on reinvestment of dividends	2,426,607
Net cash used for financing activities	(19,773,345)

Net increase in cash	2,023,048
Cash - beginning of year	4,777,787
Cash - end of year	\$6,800,835

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

Net increase in net assets resulting from operations	\$27,607,014
Increase in investments	(5,710,823 )
Increase in interest receivable	(13,744 )
Increase in other assets	(174,893 )
Increase in deferred tax liability	523,816
Increase in investment advisory fee payable	14,314
Increase in accrued expenses	55,542
Decrease in accrued taxes payable	(430,641 )
Decrease in other payables	(74,192 )
Total adjustments to net assets from operations	(5,810,621 )
Net cash provided by operating activities	\$21,796,393

See Notes to Consolidated Financial Statements

---

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	\$24,417,226	\$21,400,927
Net realized gain on investments after taxes	848,378	2,276,849
Net change in unrealized depreciation of investments after taxes	2,341,410	17,531,731
Net increase in net assets resulting from operations	27,607,014	41,209,507
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2011 - 156,934; 2010 - 178,044)	2,426,607	2,296,374
Dividends to shareholders from:		
Net investment income (2011 - \$1.34 per share; 2010 - \$1.08 per share)	(25,488,812 )	(20,357,960 )
Net realized gains (2011 - \$0.01 per share; 2010 - \$0.00 per share)	(186,150 )	-
Total increase in net assets	4,358,659	23,147,921
Net assets, beginning of year	237,584,875	214,436,954
Net assets, end of year (including undistributed net investment income of \$2,871,012 and \$3,451,526 respectively)	\$241,943,534	\$237,584,875

See Notes to Consolidated Financial Statements

---

## Babson Capital Corporate Investors

## consolidated selected financial highlights

Selected data for each share of beneficial interest outstanding:

	For the years ended December 31,				
	2011 (a)	2010 (a)	2009 (a)	2008 (a)	2007 (a)
Net asset value:					
Beginning of year	\$12.56	\$11.45	\$11.17	\$13.60	\$13.76
Net investment income (b)	1.29	1.13	1.03	1.16	1.28
Net realized and unrealized gain (loss) on investments	0.17	1.06	0.33	(2.51 )	(0.17 )
Total from investment operations	1.46	2.19	1.36	(1.35 )	1.11
Dividends from net investment income to common shareholders	(1.34 )	(1.08 )	(1.08 )	(1.08 )	(1.29 )
Dividends from net realized gain on investments to common shareholders	(0.01 )	-	-	-	-
Increase from dividends reinvested	0.02	0.00	(c) 0.00	(c) 0.00	(c) 0.02
Total dividends	(1.33 )	(1.08 )	(1.08 )	(1.08 )	(1.27 )
Net asset value: End of year	\$12.69	\$12.56	\$11.45	\$11.17	\$13.60
Per share market value:					
End of year	\$17.99	\$15.28	\$12.55	\$9.63	\$15.10
Total investment return					
Net asset value (d)	12.00	% 19.81	% 12.64	% (10.34	% 8.72
Market value (d)	27.92	% 31.73	% 39.89	% (30.44	% (8.78
Net assets (in millions):					
End of year	\$241.94	\$237.58	\$214.44	\$208.14	\$251.16
Ratio of operating expenses to average net assets	1.62	% 1.60	% 1.58	% 1.49	% 1.55
Ratio of interest expense to average net assets	0.64	% 0.70	% 0.75	% 0.67	% 0.59
Ratio of income tax expense to average net assets (e)	0.16	% 0.27	% 0.00	% 0.00	% 0.35
Ratio of total expenses to average net assets (e)	2.42	% 2.57	% 2.33	% 2.16	% 2.49
Ratio of net investment income to average net assets (e)	9.91	% 9.46	% 9.06	% 9.01	% 9.17
Portfolio turnover	21	% 39	% 23	% 32	% 44

(a) Per share amounts were adjusted to reflect a 2:1 stock split effective February 18, 2011.

(b) Calculated using average shares.

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

(d) 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.

(e)