

TEXAS CAPITAL BANCSHARES INC/TX

Form S-3

April 15, 2009

Table of Contents

As filed with the U.S. Securities and Exchange Commission on April 15, 2009
Registration No. 333-

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

Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TEXAS CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

(I.R.S. Employer)
Identification No.

75-2679109

2000 McKinney Avenue
Suite 700
Dallas, Texas 75201
(214) 932-6600

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Peter B. Bartholow
Chief Financial Officer
Texas Capital Bancshares, Inc.
2000 McKinney Avenue
Suite 700
Dallas, Texas
(214) 932-6600

(Name, address, including zip code, and telephone number, including area code, of agent for service for Registrant)

with copies to:

Norman R. Miller, Esq.
Patton Boggs LLP
2001 Ross Avenue Street, Suite 3000
Dallas, TX 75201
(214) 758-6630

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with the dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment hereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(2)
Debt securities			
Preferred stock, \$.01 par value			

Common stock, \$.01 par value			
Warrants			
Units			
Total	\$150,000,000	\$150,000,000	\$8,370

- (1) Not specified as to each class of securities to be registered pursuant to General Instruction II.D. of Form S-3. Securities registered hereunder may be sold separately, together or in units with other securities registered hereby. Subject to Rule 462(b) under the Securities Act, in no event will the aggregate initial offering price of the securities issued under this Registration Statement exceed \$150,000,000. Such amount represents the principal amount of any debt securities (or issue price, in the case of Debt Securities issued at an original issue discount), and the issue price of any preferred stock, common stock or warrants. This Registration Statement includes such presently indeterminate number of securities registered hereunder as may be issuable from time to time upon conversion of, or in exchange for, or upon exercise of, convertible or exchangeable securities as may be offered pursuant to the prospectus filed with this Registration Statement. Separate consideration may or may not be received for securities issuable on exercise, conversion, or exchange of other securities or that are issued in units.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the rules and regulations under the Securities Act, and exclusive of accrued interest and dividends, if any.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the U.S. Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED APRIL 15, 2009

PROSPECTUS

\$150,000,000

TEXAS CAPITAL BANCSHARES, INC.

**Senior Debt Securities
Subordinated Debt Securities
Convertible Debt Securities
Preferred Stock
Common Stock
Warrants
Units**

Texas Capital Bancshares, Inc. may offer and sell, from time to time, in one or more offerings, senior debt securities, subordinated debt securities, convertible debt securities, preferred stock, common stock, warrants or units. This prospectus provides a general description of the securities we may offer and the manner in which we will offer these securities. Supplements to this prospectus will describe the specific terms and manner of offering of the securities we actually offer. The prospectus supplement may also add, update, or change information contained in this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. This prospectus may not be used to sell securities, unless it is accompanied by a prospectus supplement that describes those securities.

We may offer these securities from time to time in amounts, prices, and on other terms to be determined at the time of the offering. We may sell these securities to or through underwriters, to other purchasers or through agents. The accompanying prospectus supplement will specify the names of any underwriters or agents.

Our common stock is traded on the Nasdaq Global Select Market under the symbol TCBI. You are urged to obtain current market prices for our common stock.

Our principal executive offices are located at 2000 McKinney Avenue, Suite 700, Dallas, Texas 75201 and our telephone number is (214) 932-6600. Our Internet address is <http://www.texascapitalbank.com>.

These securities are speculative and involve a high degree of risk. You should carefully read this prospectus, any applicable prospectus supplement, our periodic reports and other information we file with the U.S. Securities and Exchange Commission and any information under the heading Risk Factors beginning on page 2 of this prospectus before making a decision to purchase our securities.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are our unsecured obligations, are not savings accounts, deposits or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this prospectus is _____, 2009

TABLE OF CONTENTS

	Page
<u>ABOUT THIS PROSPECTUS</u>	1
<u>FORWARD-LOOKING STATEMENTS</u>	2
<u>ABOUT TEXAS CAPITAL BANCSHARES, INC.</u>	2
<u>RISK FACTORS</u>	2
<u>USE OF PROCEEDS</u>	3
<u>RATIOS OF EARNINGS TO FIXED CHARGES</u>	3
<u>THE SECURITIES WE MAY OFFER</u>	3
<u>DESCRIPTION OF DEBT SECURITIES</u>	4
<u>DESCRIPTION OF CAPITAL STOCK AND WARRANTS</u>	14
<u>DESCRIPTION OF UNITS</u>	17
<u>PLAN OF DISTRIBUTION</u>	17
<u>CERTAIN ERISA CONSIDERATIONS</u>	18
<u>LEGAL MATTERS</u>	19
<u>EXPERTS</u>	19
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	19
<u>EX-4.1</u>	
<u>EX-4.2</u>	
<u>EX-5.1</u>	
<u>EX-12.1</u>	
<u>EX-23.1</u>	

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, after the SEC declares our registration statement effective, we may from time to time sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$150,000,000.

We may offer the following securities from time to time:

senior debt securities

subordinated debt securities

convertible debt

preferred stock

common stock

warrants

units

This prospectus provides you with a general description of each of the securities we may offer. Each time we sell securities we will provide a prospectus supplement containing specific information about the terms of the securities being offered. That prospectus supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The prospectus supplement may also add, update, or change the information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement, including the exhibits and the documents incorporated herein by reference, can be read on the SEC website or at the SEC offices mentioned under the heading **Where You Can Find More Information**.

You should rely only on the information we incorporate by reference or present in this prospectus or the relevant prospectus supplement. We have not authorized anyone else, including any underwriter or agent, to provide you with different or additional information. We may only use this prospectus to sell securities if it is accompanied by a prospectus supplement which includes the specific terms of that offering. We are only offering these securities in states where the offer is permitted. You should not assume that the information in this prospectus or the applicable prospectus supplement is accurate as of any date other than the dates on the front of those documents.

We may sell securities to underwriters who will sell the securities to the public on terms fixed at the time of sale. In addition, the securities may be sold by us directly or through dealers or agents designated from time to time. If we, directly or through agents, solicit offers to purchase the securities, we reserve the sole right to accept and, together

with our agents, to reject, in whole or in part, any of those offers.

The prospectus supplement will contain the names of the underwriters, dealers, or agents, if any, together with the terms of the offering, the compensation of those underwriters, dealers, or agents, and the net proceeds to us. Any underwriters, dealers, or agents participating in the offering may be deemed underwriters within the meaning of the Securities Act of 1933, as amended.

In this prospectus, TCBI, we, our, ours, and us refer to Texas Capital Bancshares, Inc., which is a financial holding company headquartered in Dallas, Texas, and its subsidiaries on a consolidated basis, unless the context otherwise requires. References to Texas Capital Bank mean Texas Capital Bank, National Association, which is our principal banking subsidiary.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain statements that are considered forward looking statements within the meaning of United States securities laws. In addition, TCBI and its management may make other written or oral communications from time to time that contain forward-looking statements. Forward-looking statements, including statements about industry trends, management's future expectations and other matters that do not relate strictly to historical facts, are based on assumptions by management, and are often identified by such forward-looking terminology as expect, look, believe, anticipate, estimate, seek, may, will, trend, similar statements or variations of such terms. Forward-looking statements may include, among other things, statements about TCBI's confidence in its strategies and its expectations about financial performance, market growth, market and regulatory trends and developments, acquisitions and divestitures, new technologies, services and opportunities and earnings.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, the equity, debt, currency and other financial markets, as well as factors specific to TCBI and its subsidiaries, including Texas Capital Bank.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed elsewhere in this prospectus or disclosed in our other SEC filings. Forward-looking statements included herein should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date of this prospectus. TCBI undertakes no obligation to revise the forward-looking statements contained in this prospectus to reflect events after the date of this prospectus. The factors discussed herein are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results.

Forward-looking statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate TCBI. Any investor in TCBI should consider all risks and uncertainties disclosed in our SEC filings described below under the heading Where You Can Find More Information, all of which are accessible on the SEC's website at <http://www.sec.gov>.

ABOUT TEXAS CAPITAL BANCSHARES, INC.

Texas Capital Bancshares, Inc., a financial holding company, is the parent of Texas Capital Bank, National Association, a Texas-based bank headquartered in Dallas, with banking offices in Dallas, Houston, Fort Worth, Austin and San Antonio, the state's five largest metropolitan areas. TCBI offers a variety of banking products and services to our customers. We have focused on organic growth of Texas Capital Bank and on quality loan and deposit relationships.

RISK FACTORS

An investment in our securities involves significant risks. You should carefully consider the risks and uncertainties and the risk factors set forth in the documents and reports filed with the SEC that are incorporated by reference into this prospectus, as well as any risks described in any applicable prospectus supplement, as the same may be updated

from time to time by our future filings with the SEC under the Securities Exchange Act of 1934, as amended, before you make an investment decision regarding the securities. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. Statements in or portions of a future document incorporated by reference in this prospectus, including without limitation those relating to risk factors, may update and supersede statements in and portions of this prospectus or such incorporated documents.

Table of Contents**USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement accompanying this prospectus, we expect to use the net proceeds from the sale of our securities for general corporate purposes.

We will specify the principal purposes for which the net proceeds from the sale of our securities will be used in a prospectus supplement at the time of sale. Until we use the net proceeds from the sale of the securities for these purposes, we may place the net proceeds in temporary investments or we may hold the net proceeds in deposit accounts in our subsidiary bank.

RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratios of earnings to fixed charges for all of the periods shown below. For purposes of computing these ratios, earnings represent the sum of income from continuing operations before taxes plus fixed charges. Fixed charges represent total interest expense, including and excluding interest on deposits. We paid no dividends on preferred stock during the past five fiscal years, and as a result our ratio of earnings to combined fixed charges and preference dividends is identical to the ratio of earnings to fixed charges for the periods set forth below. In January 2009, we completed the sale of 75,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, or Series A Perpetual Preferred Stock, and a warrant to purchase 758,086 shares of our common stock to the U.S. Department of the Treasury, or Treasury. We are required to pay quarterly dividends on the shares of the Series A Perpetual Preferred Stock. The first quarterly dividend on the shares of Series A Perpetual Preferred Stock in the amount of \$302,083 was paid on February 15, 2009.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Ratio of earnings to fixed charges:					
Including interest on deposits	1.38x	1.32x	1.36x	1.61x	1.81x
Excluding interest on deposits	2.45x	2.60x	3.03x	3.44x	3.18x

THE SECURITIES WE MAY OFFER

The descriptions of the securities contained in this prospectus, together with the applicable prospectus supplement, summarize all the material terms and provisions of the various types of securities that we may offer. The particular terms of the securities offered by any prospectus supplement will be described in that prospectus supplement. If indicated in an applicable prospectus supplement, the terms of the securities may differ from the terms summarized below. An applicable prospectus supplement will also contain information, where applicable, about material U.S. federal income tax considerations relating to the securities, and the securities exchange, if any, on which the securities will be listed.

We may sell from time to time, in one or more offerings:

senior debt securities

subordinated debt securities

convertible debt

preferred stock

common stock

warrants

units

If we issue securities at a discount from their original stated principal or liquidation amount, then, for purposes of calculating the total dollar amount of all securities issued under this prospectus, we will treat the initial offering price of the securities as the total original principal or liquidation amount of the securities.

This prospectus may not be used to sell securities, unless it is accompanied by a prospectus supplement.

Table of Contents

DESCRIPTION OF DEBT SECURITIES

This section describes the general terms and provisions of the debt securities that we may issue. The applicable prospectus supplement will describe the specific terms of the debt securities offered through that prospectus supplement as well as any general terms described in this section that will not apply to those debt securities.

Any debt securities issued using this prospectus, or Debt Securities, will be our direct unsecured general obligations. The Debt Securities will be either our senior debt securities, or Senior Debt Securities, or our subordinated debt securities, or Subordinated Debt Securities. The Senior Debt Securities and the Subordinated Debt Securities will be issued under separate Indentures between us and a trustee chosen by us and qualified to act as a trustee under the Trust Indenture Act of 1939, or the Trustee. Senior Debt Securities will be issued under a Senior Indenture and Subordinated Debt Securities will be issued under a Subordinated Indenture. Together, the Senior Indenture and the Subordinated Indenture are called Indentures.

Because we are a holding company, our cash flows and consequent ability to service our obligations, including our debt securities, are dependent on distributions and other payments of earnings and other funds by our subsidiaries to us. The payment of dividends and other distributions by our subsidiaries is contingent upon their earnings and is subject to the requirements of federal banking regulations and other restrictions. In addition, the debt securities will be structurally subordinated to all indebtedness and other liabilities of our subsidiaries, since any right we have to receive any assets of our subsidiaries will be effectively subordinated to the claims of that subsidiary's creditors. If we are recognized as a creditor of that subsidiary, our claims would still be subordinate to any security interest in the assets of that subsidiary and any indebtedness of that subsidiary senior to us. Claims from creditors (other than us), on subsidiaries may include long-term and medium-term debt and substantial obligations related to deposit liabilities, federal funds purchased, securities sold under repurchase agreements and other short-term borrowings. Any capital loans that we make to Texas Capital Bank would be subordinate in right of payment to deposits and to other indebtedness of Texas Capital Bank.

We have summarized selected provisions of the Indentures below. The summary is not complete. The form of each Indenture has been filed with the SEC as an exhibit to the registration statement of which this prospectus is a part, and you should read the Indentures for provisions that may be important to you. Your rights are defined by the terms of the Indentures, not the summary provided in this prospectus or a prospectus supplement. In the summary below we have included references to article or section numbers of the applicable Indenture so that you can easily locate these provisions. Whenever we refer in this prospectus or in the prospectus supplement to particular articles or sections or defined terms of the Indentures, those articles or sections or defined terms are incorporated by reference herein or therein, as applicable. Capitalized terms used in the summary have the meanings specified in the Indentures.

General

The Indentures provide that Debt Securities in separate series may be issued thereunder from time to time without limitation as to aggregate principal amount. We may specify a maximum aggregate principal amount for the Debt Securities of any series (Section 2.05). We will determine the terms and conditions of the Debt Securities, including the maturity, principal and interest, but those terms must be consistent with the Indenture.

The Senior Debt Securities will rank equally with all of our other senior unsecured and unsubordinated debt (Senior Debt). The Subordinated Debt Securities will be subordinated in right of payment to the prior payment in full of all of our Senior Debt as described under Subordination of Subordinated Debt Securities and in the prospectus supplement applicable to any Subordinated Debt Securities.

Table of Contents

The applicable prospectus supplement will set forth the price or prices at which the Debt Securities to be offered will be issued and will describe the following terms of such Debt Securities:

the title of the Debt Securities;

whether the Debt Securities are Senior Debt Securities or Subordinated Debt Securities and, if Subordinated Debt Securities, the related subordination terms;

whether the Debt Securities will be issued as registered securities, bearer securities or a combination of both;

any limit on the aggregate principal amount of the Debt Securities;

the dates on which the principal of the Debt Securities will mature;

the interest rate that the Debt Securities will bear and the interest payment dates for the Debt Securities or the method to determine each;

the place or places where payments on the Debt Securities will be payable;

whether the Debt Securities will be issued in the form of one or more global securities and whether such global securities will be issued in a temporary global form or permanent global form;

any terms upon which the Debt Securities may be redeemed, in whole or in part, at our option;

any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the Debt Securities;

the portion of the principal amount, if less than all, of the Debt Securities that will be payable upon declaration of acceleration of the Maturity of the Debt Securities;

whether the Debt Securities are defeasible;

any addition to or change in the Events of Default or rights of holders upon an Event of Default;

whether the Debt Securities will be issued pursuant to a medium-term note program;

whether the Debt Securities are convertible into our common stock, preferred stock or any of our other securities and, if so, the terms and conditions upon which conversion will be effected, including the initial conversion price or conversion rate and any adjustments thereto and the conversion period;

any addition to or change in the covenants in the Indenture applicable to the Debt Securities; and

any other terms of the Debt Securities not prohibited by the Indenture (Section 2.05).

The Indentures do not limit the amount of Debt Securities that may be issued. Each Indenture allows Debt Securities to be issued up to the principal amount that may be authorized by us and may be in any currency or currency unit designated by us.

Debt Securities, including Original Issue Discount Securities bearing no interest or bearing interest which at the time of issuance is below market rate, may be sold at a substantial discount below their principal amount. Special United States federal income tax considerations applicable to Debt Securities sold at an original issue discount may be described in the applicable prospectus supplement. In addition, special United States federal income tax or other considerations applicable to any Debt Securities that are denominated in a currency or currency unit other than United States dollars may be described in the applicable prospectus supplement.

Senior Debt Securities

The Senior Debt Securities will be our unsecured senior obligations and will rank equally with all other senior unsecured and unsubordinated debt. The Senior Debt Securities will, however, be subordinated in right of payment to all our secured indebtedness to the extent of the value of the assets securing such indebtedness whether existing at the date of the Senior Indenture or subsequently incurred. Except as provided in the

Table of Contents

applicable Senior Indenture or specified in any authorizing resolution or supplemental indenture relating to a series of Senior Debt Securities to be issued, the Senior Indenture will not limit the amount of additional indebtedness that may rank equally with the Senior Debt Securities or the amount of indebtedness, secured or otherwise, that may be incurred or preferred stock that may be issued by any of our subsidiaries.

Subordination of Subordinated Debt Securities

The indebtedness evidenced by the Subordinated Debt Securities will, to the extent set forth in the Subordinated Indenture with respect to each series of Subordinated Debt Securities, be subordinate in right of payment to the prior payment in full of all of our secured indebtedness and Senior Debt, including the Senior Debt Securities, whether existing at the date of the Senior Indenture or subsequently incurred (Article XIII of the Subordinated Indenture). The prospectus supplement relating to any Subordinated Debt Securities will summarize the subordination provisions of the Subordinated Indenture applicable to that series including:

the applicability and effect of such provisions upon any payment or distribution respecting that series following any liquidation, dissolution or other winding-up, or any assignment for the benefit of creditors or other marshaling of assets or any bankruptcy, insolvency or similar proceedings;

the applicability and effect of such provisions in the event of specified defaults with respect to any Senior Debt, including the circumstances under which and the periods in which we will be prohibited from making payments on the Subordinated Debt Securities; and

the definition of Senior Debt applicable to the Subordinated Debt Securities of that series and, if the series is issued on a senior subordinated basis, the definition of Subordinated Debt applicable to that series.

The prospectus supplement will also describe as of a recent date the approximate amount of Senior Debt to which the Subordinated Debt Securities of that series will be subordinated.

The failure to make any payment on any of the Subordinated Debt Securities by reason of the subordination provisions of the Subordinated Indenture described in the prospectus supplement will not be construed as preventing the occurrence of an Event of Default with respect to the Subordinated Debt Securities arising from any such failure to make payment.

The subordination provisions described above will not be applicable to payments in respect of the Subordinated Debt Securities from a defeasance trust established in connection with any legal defeasance or covenant defeasance of the Subordinated Debt Securities as described under Legal Defeasance and Covenant Defeasance.

Subordinated Debt Securities Intended to Qualify as Tier 2 Capital

If stated in the applicable prospectus supplement, the Subordinated Debt Securities covered by that prospectus supplement will be intended to qualify as Tier 2 Capital under the guidelines established by the Federal Reserve Board for bank holding companies. The guidelines set forth specific criteria for Subordinated Debt Securities to qualify as Tier 2 Capital. Among other things that Subordinated Debt Securities must:

be unsecured;

have a minimum average maturity of five years;

be subordinated in right of payment;

not contain provisions permitting the holders of the debt to accelerate payment of principal prior to maturity except in the event of bankruptcy of the issuer; and

not contain provisions that would adversely affect liquidity or unduly restrict management's flexibility to operate the organization, particularly in times of financial difficulty, such as limitations on additional secured or senior borrowings, sales or dispositions of assets or changes in control.

Table of Contents

Conversion Rights

The Debt Securities may be converted into other securities of our company, if at all, according to the terms and conditions of an applicable prospectus supplement. Such terms will include the conversion price, the conversion period, whether conversion will be at the option of the holders of such series of Debt Securities or at the option of our company, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such series of Debt Securities.

Denomination, Exchange and Transfer

The Debt Securities of each series will be issuable, unless otherwise specified in the applicable prospectus supplement, only in denominations of \$1,000 and integral multiples thereof (Section 2.08).

Registered securities of any series that are not Global Securities will be exchangeable for other registered securities of the same series and of like aggregate principal amount and tenor in different authorized denominations. In addition, if debt securities of any series are issuable as both registered securities and bearer securities, the holder may choose, upon written request, and subject to the terms of the applicable indenture, to exchange bearer securities and the appropriate related coupons of that series into registered securities of the same series of any authorized denominations and of like aggregate principal amount and tenor. Bearer securities with attached coupons surrendered in exchange for registered securities between a regular record date or a special record date and the relevant date for interest payment shall be surrendered without the coupon relating to the interest payment date. Interest will not be payable with respect to the registered security issued in exchange for that bearer security. That interest will be payable only to the holder of the coupon when due in accordance with the terms of the indenture. Bearer securities will not be issued in exchange for registered securities.

You may present registered securities for registration of transfer, together with a duly executed form of transfer, at the office of the security registrar or at the office of any transfer agent designated by us for that purpose with respect to any series of Debt Securities and referred to in the applicable prospectus supplement. This may be done without service charge but upon payment of any taxes and other governmental charges as described in the applicable indenture. The security registrar or the transfer agent will effect the transfer or exchange upon being satisfied with the documents of title and identity of the person making the request. We will appoint the Trustee as security registrar for each Indenture. If a prospectus supplement refers to any transfer agents initially designated by us with respect to any series of debt securities in addition to the security registrar, we may at any time rescind the designation of any of those transfer agents or approve a change in the location through which any of those transfer agents acts. If, however, debt securities of a series are issuable solely as registered securities, we will be required to maintain a transfer agent in each place of payment for that series, and if debt securities of a series are issuable as bearer securities, we will be required to maintain a transfer agent in a place of payment for that series located outside of the United States in addition to the security registrar. We may at any time designate additional transfer agents with respect to any series of debt securities. The Debt Security Registrar and any other transfer agent initially designated by us for any Debt Securities will be named in the applicable prospectus supplement (Section 2.06). We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each Place of Payment for the Debt Securities of each series (Section 4.02).

If the Debt Securities of any series (or of any series and specified tenor) are to be redeemed in part, we will not be required to (1) issue, register the transfer of or exchange any Debt Security of that series (or of that series and specified tenor, as the case may be) during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any such Debt Security that may be selected for redemption and ending at the

close of business on the day of such mailing or (2) register the transfer of or exchange any Debt Security so selected for redemption, in whole or in part, except the unredeemed portion of any such Debt Security being redeemed in part (Section 2.09).

Table of Contents

Global Securities

Some or all of the Debt Securities of any series may be represented, in whole or in part, by one or more Global Securities that will have an aggregate principal amount equal to that of the Debt Securities they represent. Each Global Security will be registered in the name of a Depository or its nominee identified in the applicable prospectus supplement, will be deposited with such Depository or nominee or its custodian and will bear a legend regarding the restrictions on exchanges and registration of transfer thereof referred to below and any such other matters as may be provided for pursuant to the applicable Indenture. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form.

Notwithstanding any provision of the Indentures or any Debt Security described in this prospectus, no Global Security, unless its terms so expressly permit, may be exchanged in whole or in part for Debt Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any person other than the Depository for such Global Security or any nominee of such Depository unless:

- (1) the Depository has notified us that it is unwilling or unable to continue as Depository for such Global Security or has ceased to be qualified to act as such as required by the applicable Indenture, and in either case we fail to appoint a successor Depository within 90 days;
- (2) an Event of Default with respect to the Debt Securities represented by such Global Security has occurred and is continuing and the Trustee has received a written request from the Depository to issue certificated Debt Securities; or
- (3) other circumstances exist, in addition to or in lieu of those described above, as may be described in the applicable prospectus supplement.

All Debt Securities issued in exchange for a Global Security or any portion thereof will be registered in such names as the Depository may direct (Section 2.17).

As long as the Depository, or its nominee, is the registered holder of a Global Security, the Depository or such nominee, as the case may be, will be considered the sole owner and Holder of such Global Security and the Debt Securities that it represents for all purposes under the Debt Securities and the applicable Indenture (Section 2.17). Except in the limited circumstances referred to above, owners of beneficial interests in a Global Security will not be entitled to have such Global Security or any Debt Securities that it represents registered in their names, will not receive or be entitled to receive physical delivery of certificated Debt Securities in exchange for those interests and will not be considered to be the owners or Holders of such Global Security or any Debt Securities that it represents for any purpose under the Debt Securities or the applicable Indenture. All payments on a Global Security will be made to the Depository or its nominee, as the case may be, as the Holder of the security. The laws of some jurisdictions require that some purchasers of Debt Securities take physical delivery of such Debt Securities in definitive form. These laws may impair the ability to transfer beneficial interests in a Global Security.

Ownership of beneficial interests in a Global Security will be limited to institutions that have accounts with the Depository or its nominee (participants) and to persons that may hold beneficial interests through participants. In connection with the issuance of any Global Security, the Depository will credit, on its book-entry registration and transfer system, the respective principal amounts of Debt Securities represented by the Global Security to the accounts of its participants. Ownership of beneficial interests in a Global Security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by the Depository (with respect to participants interests) or any such participant (with respect to interests of persons held by such participants on their behalf). Payments, transfers, exchanges and other matters relating to beneficial interests in a Global Security may be subject to various policies and procedures adopted by the Depository from time to time. None of us, any Trustee or

any agent of ours will have any responsibility or liability for any aspect of the Depository's or any participant's records relating to, or for payments made on account of, beneficial interests in a Global Security, or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Table of Contents

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, payment of interest on a Debt Security on any Interest payment date will be made to the Person in whose name such Debt Security (or one or more Predecessor Debt Securities) is registered at the close of business on the regular record date for such interest (Section 2.14).

Unless otherwise indicated in the applicable prospectus supplement, principal of and any premium and interest on the Debt Securities of a particular series will be payable at the office of such Paying Agent or Paying Agents as we may designate for such purpose from time to time, except that at our option payment of any interest on Debt Securities in certificated form may be made by check mailed to the address of the Person entitled thereto as such address appears in the Security Register. Unless otherwise indicated in the applicable prospectus supplement, the corporate trust office of the Trustee under the Senior Indenture in The City of New York will be designated as sole Paying Agent for payments with respect to Senior Debt Securities of each series, and the corporate trust office of the Trustee under the Subordinated Indenture in The City of New York will be designated as the sole Paying Agent for payment with respect to Subordinated Debt Securities of each series. Any other Paying Agents initially designated by us for the Debt Securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional Paying Agents or rescind the designation of any Paying Agent or approve a change in the office through which any Paying Agent acts, except that we will be required to maintain a Paying Agent in each Place of Payment for the Debt Securities of a particular series (Section 4.02).

Subject to any applicable abandoned property law, all money paid by us to a Paying Agent for the payment of the principal of or any premium or interest on any Debt Security which remain unclaimed at the end of two years after such principal, premium or interest has become due and payable will be repaid to us, and the Holder of such Debt Security thereafter may look only to us for payment (Section 11.05).

Consolidation, Merger and Sale of Assets

We may not consolidate with or merge into, or transfer, lease or otherwise dispose of all or substantially all of our assets to, any Person (a successor Person), and may not permit any Person to consolidate with or merge into us, unless:

- (1) the successor Person (if any) is a corporation and validly existing under the laws of any domestic jurisdiction and assumes our obligations on the Debt Securities and under the Indentures;
- (2) immediately before and after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, has occurred and is continuing; and
- (3) several other conditions, including any additional conditions with respect to any particular Debt Securities specified in the applicable prospectus supplement, are met (Section 10.01).

Events of Default

Unless otherwise specified in the prospectus supplement, each of the following will constitute an Event of Default under the applicable Indenture with respect to Debt Securities of any series:

- (1) failure to pay principal of or premium on any Debt Security of that series when due, whether or not, in the case of Subordinated Debt Securities, such payment is prohibited by the subordination provisions of the Subordinated Indenture;

(2) failure to pay any interest on any Debt Securities of that series when due, continued for 30 days, whether or not, in the case of Subordinated Debt Securities, such payment is prohibited by the subordination provisions of the Subordinated Indenture;

Table of Contents

- (3) failure to deposit any sinking fund payment, when due, in respect of any Debt Security of that series, whether or not, in the case of Subordinated Debt Securities, such deposit is prohibited by the subordination provisions of the Subordinated Indenture;
- (4) failure to perform or comply with the provisions described under Consolidation, Merger and Sale of Assets ;
- (5) failure to perform any of our other covenants in such Indenture (other than a covenant included in such Indenture solely for the benefit of a series other than that series), continued for 90 days after written notice has been given, as provided in such Indenture;
- (6) any judgment or decree for the payment of money in excess of an amount to be determined at the time the series of Debt Securities are created is entered against us or any Restricted Subsidiary remains outstanding for a period of 60 consecutive days following entry of such judgment and is not discharged, waived or stayed; and
- (7) certain events of bankruptcy, insolvency or reorganization affecting us or any Restricted Subsidiary. (Section 6.01).

Except as may be summarized in a prospectus supplement and set forth in a supplemental indenture or the board resolution creating a series of Debt Securities, if an Event of Default (other than an Event of Default with respect to TCBI. described in clause (7) above) with respect to the Debt Securities of any series at the time Outstanding occurs and is continuing, either the applicable Trustee or the Holders of at least 25% in principal amount of the Outstanding Debt Securities of that series by notice as provided in the Indenture may declare the principal amount of the Debt Securities of that series (or, in the case of any Debt Security that is an Original Issue Discount Debt Security, such portion of the principal amount of such Debt Security as may be specified in the terms of such Debt Security) to be due and payable immediately. If an Event of Default with respect to TCBI described in clause (7) above with respect to the Debt Securities of any series at the time Outstanding occurs, the principal amount of all the Debt Securities of that series (or, in the case of any such Original Issue Discount Security, such specified amount) will automatically, and without any action by the applicable Trustee or any Holder, become immediately due and payable. After any such acceleration, but before a judgment or decree based on acceleration, the Holders of a majority in principal amount of the Outstanding Debt Securities of that series may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the non-payment of accelerated principal (or other specified amount), have been cured or waived as provided in the applicable Indenture (Section 6.01). For information as to waiver of defaults, see Modification and Waiver below.

Subject to the provisions of the Indentures relating to the duties of the Trustees in case an Event of Default has occurred and is continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the applicable Indenture at the request or direction of any of the Holders, unless such Holders have offered to such Trustee reasonable indemnity (Section 6.04). Subject to such provisions for the indemnification of the Trustees, the Holders of a majority in principal amount of the Outstanding Debt Securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Debt Securities of that series (Section 6.06).

No Holder of a Debt Security of any series will have any right to institute any proceeding with respect to the applicable Indenture, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless:

- (1) such Holder has previously given to the Trustee under the applicable Indenture written notice of a continuing Event of Default with respect to the Debt Securities of that series;

(2) the Holders of at least 25% in principal amount of the Outstanding Debt Securities of that series have made written request, and such Holder or Holders have offered reasonable indemnity, to the Trustee to institute such proceeding as trustee; and

Table of Contents

(3) the Trustee has failed to institute such proceeding, and has not received from the Holders of a majority in principal amount of the Outstanding Debt Securities of that series a direction inconsistent with such request, within 60 days after such notice, request and offer (Section 6.04).

However, such limitations do not apply to a suit instituted by a Holder of a Debt Security for the enforcement of payment of the principal of or any premium or interest on such Debt Security on or after the applicable due date specified in such Debt Security or, if applicable, to convert such Debt Security (Section 6.04).

We will be required to furnish to each Trustee annually a statement by certain of our officers as to whether or not we, to their knowledge, are in default in the performance or observance of any of the terms, provisions and conditions of the applicable Indenture and, if so, specifying all such known defaults (Section 4.06).

Modification and Waiver

Modifications and amendments of an Indenture may be made by us and the applicable Trustee with the consent of the Holders of a majority in principal amount of the Outstanding Debt Securities of each series affected by such modification or amendment; *provided, however*, that no such modification or amendment may, without the consent of the Holder of each Outstanding Debt Security affected thereby:

change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Debt Security;

reduce the principal amount of, or any premium or interest on, any Debt Security;

reduce the amount of principal of an Original Issue Discount Security or any other Debt Security payable upon acceleration of the Maturity thereof;

change the place or currency of payment of principal of, or any premium or interest on, any Debt Security;

impair the right to institute suit for the enforcement of any payment due on or any conversion right with respect to any Debt Security;

modify the subordination provisions in the case of Subordinated Debt Securities, or modify any conversion provisions, in either case in a manner adverse to the Holders of the Subordinated Debt Securities;

reduce the percentage in principal amount of Outstanding Debt Securities of any series, the consent of whose Holders is required for modification or amendment of the Indenture;

reduce the percentage in principal amount of Outstanding Debt Securities of any series necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults; or

modify such provisions with respect to modification, amendment or waiver (Section 9.02).

The Holders of a majority in principal amount of the Outstanding Debt Securities of any series may waive compliance by us with certain restrictive provisions of the applicable Indenture (Section 6.06). The Holders of a majority in principal amount of the Outstanding Debt Securities of any series may waive any past default under the applicable Indenture, except a default in the payment of principal, premium or interest and certain covenants and provisions of the Indenture which cannot be amended without the consent of the Holder of each Outstanding Debt Security of such series (Section 6.06).

Table of Contents

Each of the Indentures provides that in determining whether the Holders of the requisite principal amount of the Outstanding Debt Securities have given or taken any direction, notice, consent, waiver or other action under such Indenture as of any date:

the principal amount of an Original Issue Discount Security that will be deemed to be Outstanding will be the amount of the principal that would be due and payable as of such date upon acceleration of maturity to such date;

if, as of such date, the principal amount payable at the Stated Maturity of a Debt Security is not determinable (for example, because it is based on an index), the principal amount of such Debt Security deemed to be Outstanding as of such date will be an amount determined in the manner prescribed for such Debt Security; and

the principal amount of a Debt Security denominated in one or more foreign currencies or currency units that will be deemed to be Outstanding will be the United States-dollar equivalent, determined as of such date in the manner prescribed for such Debt Security, of the principal amount of such Debt Security (or, in the case of a Debt Security described in the first two bullet points above, of the amount described in such clause).

Certain Debt Securities, including those owned by us or any of our Affiliates, will not be deemed to be Outstanding (Section 8.03).

Except in certain limited circumstances, we will be entitled to set any day as a record date for the purpose of determining the Holders of Outstanding Debt Securities of any series entitled to give or take any direction, notice, consent, waiver or other action under the applicable Indenture, in the manner and subject to the limitations provided in the Indenture. In certain limited circumstances, the Trustee will be entitled to set a record date for action by Holders. If a record date is set for any action to be taken by Holders of a particular series, only persons who are Holders of Outstanding Debt Securities of that series on the record date may take such action.

Satisfaction and Discharge

Each Indenture will be discharged and will cease to be of further effect as to all outstanding Debt Securities of any series issued thereunder, when:

(1) either:

(a) all outstanding Debt Securities of that series that have been authenticated (except lost, stolen or destroyed Debt Securities that have been replaced or paid and Debt Securities for whose payment money has theretofore been deposited in trust and thereafter repaid to us) have been delivered to the Trustee for cancellation; or

(b) all outstanding Debt Securities of that series that have not been delivered to the Trustee for cancellation have become due and payable or will become due and payable at their Stated Maturity within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee and in any case we have irrevocably deposited with the Trustee as trust funds money in an amount sufficient, without consideration of any reinvestment of interest, to pay the entire indebtedness of such Debt Securities not delivered to the Trustee for cancellation, for principal, premium, if any, and accrued interest to the Stated Maturity or redemption date;

(2) we have paid or caused to be paid all other sums payable by us under the Indenture with respect to the Debt Securities of that series; and

(3) we have delivered an Officers Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge of the Indenture with respect to the Debt Securities of that series have been satisfied (Article XI).

Table of Contents

Legal Defeasance and Covenant Defeasance

If and to the extent indicated in the applicable prospectus supplement, we may elect, at our option at any time, to have the provisions of Section 11.02, relating to defeasance and discharge of indebtedness, which we call legal defeasance, or relating to defeasance of certain restrictive covenants applied to the Debt Securities of any series, or to any specified part of a series, which we call covenant defeasance.

Legal Defeasance.

The Indentures provide that, upon our exercise of our option (if any) to have Section 11.02 applied to any Debt Securities, we will be discharged from all our obligations, and, if such Debt Securities are Subordinated Debt Securities, the provisions of the Subordinated Indenture relating to subordination will cease to be effective, with respect to such Debt Securities (except for certain obligations to convert, exchange or register the transfer of Debt Securities, to replace stolen, lost or mutilated Debt Securities, to maintain paying agencies and to hold monies for payment in trust) upon the deposit in trust for the benefit of the Holders of such Debt Securities of money or United States Government Obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of and any premium and interest on such Debt Securities on the respective Stated Maturities in accordance with the terms of the applicable Indenture and such Debt Securities. Such defeasance or discharge may occur only if, among other things:

we have delivered to the applicable Trustee an Opinion of Counsel to the effect that we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that Holders of such Debt Securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and legal defeasance and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and legal defeasance were not to occur;

no Event of Default or event that with the passing of time or the giving of notice, or both, shall constitute an Event of Default shall have occurred and be continuing at the time of such deposit or, with respect to any Event of Default described in clause (7) under Events of Default, at any time until 121 days after such deposit;

such deposit and legal defeasance will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which we are a party or by which we are bound;

in the case of Subordinated Debt Securities, at the time of such deposit, no default in the payment of all or a portion of principal of (or premium, if any) or interest on any of our Senior Debt shall have occurred and be continuing, no event of default shall have resulted in the acceleration of any of our Senior Debt and no other event of default with respect to any of our Senior Debt shall have occurred and be continuing permitting after notice or the lapse of time, or both, the acceleration thereof; and

we have delivered to the Trustee an Opinion of Counsel to the effect that such deposit shall not cause the Trustee or the trust so created to be subject to the Investment Company Act of 1940 (Section 11.03).

Covenant Defeasance.

The Indentures provide that, upon our exercise of our option (if any) to have Section 11.02 applied to any Debt Securities, we may omit to comply with certain restrictive covenants (but not to conversion, if applicable), including those that may be described in the applicable prospectus supplement, the occurrence of certain Events of Default, which are described above in clause (5) (with respect to such restrictive covenants) and clauses (5) and (6) under

Events of Default and any that may be described in the applicable prospectus supplement, will not be deemed to either be or result in an Event of Default and, if such Debt Securities are Subordinated Debt Securities, the provisions of the Subordinated Indenture relating to subordination will cease to be effective, in each case with respect to such Debt Securities. In order to exercise such option, we must deposit, in trust for the benefit of the Holders of such Debt Securities, money or United States

Table of Contents

Government Obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay the principal of and any premium and interest on such Debt Securities on the respective Stated Maturities in accordance with the terms of the applicable Indenture and such Debt Securities. Such covenant defeasance may occur only if we have delivered to the applicable Trustee an Opinion of Counsel that in effect says that Holders of such Debt Securities will not recognize gain or loss for federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and covenant defeasance were not to occur, and the requirements listed in the last four bullet points above are satisfied. If we exercise this option with respect to any Debt Securities and such Debt Securities were declared due and payable because of the occurrence of any Event of Default, the amount of money and United States Government Obligations so deposited in trust would be sufficient to pay amounts due on such Debt Securities at the time of their respective Stated Maturities but may not be sufficient to pay amounts due on such Debt Securities upon any acceleration resulting from such Event of Default. In such case, we would remain liable for such payments (Section 11.02).

Notices

Notices to Holders of Debt Securities will be given by mail to the addresses of such Holders as they may appear in the Security Register (Section 12.03).

Title

We, the Trustees and any of our agents may treat the Person in whose name a Debt Security is registered as the absolute owner of the Debt Security (whether or not such Debt Security may be overdue) for the purpose of making payment and for all other purposes (Section 8.03).

Governing Law

The Indentures and the Debt Securities will be governed by, and construed in accordance with, the law of the State of New York without regard to conflicts of law principles (Section 12.04).

DESCRIPTION OF CAPITAL STOCK AND WARRANTS

The following is a brief description of our capital stock. This summary does not purport to be complete in all respects. This description is subject to and qualified in its entirety by reference to our certificate of incorporation, as amended, copies of which have been filed with the SEC and are also available upon request from us.

General

Under our certificate of incorporation, as amended, we have authority to issue up to 10 million shares of preferred stock, par value \$0.01 per share. Of such shares, 75,000 shares have been designated as Series A Perpetual Preferred Stock, all of which shares were outstanding as of April 14, 2009. No other shares of preferred stock are issued and outstanding as of the date hereof. We have 100,000,000 shares of authorized common stock, \$0.01 par value per share, of which 31,014,158 shares were outstanding as of April 14, 2009.

Preferred Stock

If we offer to sell newly-issued preferred stock, our board of directors is authorized, subject to the rights of the holders of our Series A Perpetual Preferred Stock, to designate and issue shares of preferred stock in one or more series

without stockholder approval. Subject to the rights of the holders of our Series A Perpetual Preferred Stock, our board of directors would have discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

Table of Contents

So long as any shares of our Series A Perpetual Preferred Stock are outstanding, the vote or consent of the holders of at least 66 $\frac{2}{3}$ % of the outstanding shares of Series A Perpetual Preferred Stock, voting as a separate class, is necessary for effecting or validating any amendment or alteration of our certificate of incorporation that authorizes or creates or increases the authorized amount of, or any issuance of, any shares of capital stock of TCBI (or any securities convertible into or exchangeable or exercisable for such shares) that ranks senior to our Series A Perpetual Preferred Stock with respect to the payment of dividends or the distribution of assets on any liquidation, dissolution or winding up of TCBI. The Series A Perpetual Preferred Stock will rank at least equally with any preferred stock designated as ranking on a parity with the Series A Perpetual Preferred Stock with respect to the payment of dividends and a liquidation preference upon our liquidation, dissolution or winding up and will rank senior to any preferred stock designated as ranking junior to the Series A Perpetual Preferred Stock with respect to the payment of dividends or a liquidation preference.

If we offer to sell newly-issued preferred stock, we will file the terms of the preferred stock with the SEC, and the prospectus supplement relating to that offering will include a description of the specific terms of the offering, including the following specific terms:

the series, the number of shares offered and the liquidation value of the preferred stock;

the price at which the preferred stock will be issued;

the dividend rate, the dates on which the dividends will be payable and other terms relating to the payment of dividends on the preferred stock;

the liquidation preference of the preferred stock;

the voting rights of the preferred stock;

whether the preferred stock is redeemable or subject to a sinking fund, and the terms of any such redemption or sinking fund;

whether the preferred stock is convertible or exchangeable for any other securities, and the terms of any such conversion; and

any additional rights, preferences, qualifications, limitations and restrictions of the preferred stock.

It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until the board of directors determines the specific rights of the holders of the preferred stock. However, these effects might include:

restricting dividends on the common stock;

diluting the voting power of the common stock;

impairing the liquidation rights of the common stock; and

delaying or preventing a change in control of our company.

Common Stock

Each holder of our common stock is entitled to one vote for each share held on all matters with respect to which the holders of our common stock are entitled to vote. Our common stock has no preemptive or conversion rights and is not subject to redemption. Holders of our common stock are not entitled to cumulative voting in the election of directors. In the event of dissolution or liquidation, after payment of all creditors and payment of liquidation preferences on preferred stock, the holders of our common stock (subject to the prior rights of the holders of any outstanding preferred stock) will be entitled to receive pro rata any assets distributable to stockholders in respect of the number of shares held by them. The holders of shares of our common stock are entitled to such dividends as our board of directors, in its discretion, may declare out of funds legally available therefor, subject to certain limitations under the Delaware General Corporation Law, or DGCL. We have not paid dividends on our common stock to date, and we do not anticipate paying dividends in the near future. However, the payment of dividends on our common stock is subject to the prior rights of the holders of any preferred stock,

Table of Contents

including our Series A Perpetual Preferred Stock. In addition, the securities purchase agreement that we entered into with the Treasury in connection with the sale of the Series A Perpetual Preferred Stock restricts our ability to pay dividends, unless we obtain the consent of the Treasury. Payment of dividends on both our common stock and any preferred stock, will be dependent upon, among other things, our earnings and financial condition, our cash flow requirements and the prevailing economic and regulatory climate.

Anti-Takeover Provisions.

Certain provisions included in our certificate of incorporation, as amended, our amended and restated bylaws, as amended, as well as certain provisions of the DGCL and federal law, may discourage or prevent potential acquisitions of control of us. These provisions are more fully set forth in our Registration Statement on Form 10, as amended, which was filed with the SEC on August 24, 2000, and is incorporated by reference into this prospectus.

Restrictions on Ownership.

The Bank Holding Company Act of 1956, the BHC Act, generally would prohibit any company that is not engaged in banking activities and activities that are permissible for a bank holding company or a financial holding company from acquiring control of TCBI. Control is generally defined as ownership of 25% or more of the voting stock or other exercise of a controlling influence. In addition, any existing bank holding company would need the prior approval of the Board of Governors of the Federal Reserve System, or the Federal Reserve, before acquiring 5% or more of the voting stock of TCBI. In addition, the Change in Bank Control Act of 1978, as amended, prohibits a person or group of persons from acquiring control of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as TCBI, could constitute acquisition of control of the bank holding company.

Listing.

Our common stock is listed on the Nasdaq Global Select Market.

Transfer Agent and Registrar.

The transfer agent and registrar for our common stock is Computershare Investor Services LLC.

Warrants

We may issue additional warrants for the purchase of common stock. Warrants may be issued independently or together with debt securities or common stock offered by any prospectus supplement and may be attached to or separate from any such offered securities. Series of warrants may be issued under a separate warrant agreement entered into between us and a bank or trust company, as warrant agent, all as will be set forth in the prospectus supplement relating to the particular issue of warrants. The warrant agent would act solely as our agent in connection with the warrants and would not assume any obligation or relationship of agency or trust for or with any holders of warrants or beneficial owners of warrants.

The following summary of certain provisions of the warrants does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all provisions of the warrant agreements.

Reference is made to the prospectus supplement relating to the particular issue of warrants offered pursuant to such prospectus supplement for the terms of and information relating to such warrants, including, where applicable:

the number of shares of common stock purchasable upon the exercise of warrants to purchase common stock and the price at which such number of shares of common stock may be purchased upon such exercise;

Table of Contents

the date on which the right to exercise such warrants shall commence and the date on which such right shall expire;

United States federal income tax consequences applicable to such warrants;

the amount of warrants outstanding as of the most recent practicable date; and

any other terms of such warrants.

Warrants will be issued in registered form only. The exercise price for warrants will be subject to adjustment in accordance with the applicable prospectus supplement.

Each warrant will entitle the holder thereof to purchase such number of shares of common stock at such exercise price as shall be set forth in, or calculable from, the prospectus supplement relating to the warrants, which exercise price may be subject to adjustment upon the occurrence of certain events as set forth in such prospectus supplement. After the close of business on the expiration date, or such later date to which such expiration date may be extended by us, unexercised warrants will become void. The place or places where, and the manner in which, warrants may be exercised shall be specified in the prospectus supplement relating to such warrants.

Prior to the exercise of any warrants to purchase common stock, holders of such warrants will not have any of the rights of holders of common stock purchasable upon such exercise, including the right to receive payments of dividends, if any, on the common stock purchasable upon such exercise, or to exercise any applicable right to vote.

DESCRIPTION OF UNITS

This section describes the general terms and provisions of the units. The prospectus supplement will describe the specific terms of the units offered through that prospectus supplement and any general terms outlined in this section that will not apply to those units.

We may issue units comprised of two or more of the other securities described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

PLAN OF DISTRIBUTION

We may sell the securities offered by this prospectus to one or more underwriters for public offering and sale by them or may sell the securities to investors directly or through dealers or agents, or through a combination of methods. Any underwriter, dealer or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement.

We may distribute our securities from time to time in one or more transactions at: (1) a fixed price or prices, which may be changed, (2) market prices prevailing at the time of sale, (3) prices related to the prevailing market prices at the time of sale, or (4) negotiated prices. We also may, from time to time, authorize underwriters acting as our agents to offer and sell the securities upon the terms and conditions as set forth in the applicable prospectus supplement. In connection with the sale of securities, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from purchasers of securities for whom

they may act as agent. Underwriters may sell securities to or through dealers, and the dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent.

Any underwriting compensation paid by us to underwriters, dealers or agents in connection with the offering of securities, and any discounts, concessions or commissions allowed by underwriters to participating

Table of Contents

dealers, will be set forth in the applicable prospectus supplement. Dealers and agents participating in the distribution of the securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. Underwriters, dealers and agents may be entitled, under agreements entered into with us, to indemnification against contribution toward civil liabilities, including liabilities under the Securities Act.

To facilitate the offering of the securities, certain persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affect the price of the securities. This may include over-allotments or short sales of the securities, which involves the sale by persons participating in the offering of more securities than we sold to them. In these circumstances, the persons would cover the over-allotments or short positions by making purchases in the open market or by exercising their over-allotment option. In addition, these persons may stabilize or maintain the price of the securities by bidding for or purchasing securities in the open market or by imposing penalty bids, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if securities sold by them is repurchased in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. These transactions may be discontinued at any time.

The underwriters, dealers and agents and their affiliates may engage in transactions with and perform services for us in the ordinary course of business for which they receive compensation.

In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc. (FINRA), the maximum discount or commission to be received by any FINRA member or independent broker-dealer may not exceed 8.00% of the aggregate gross sales proceeds of any shares of common stock offered hereby.

Any common stock sold pursuant to a prospectus supplement will be eligible for listing and trading on Nasdaq Global Select Market, subject to official notice of issuance.

CERTAIN ERISA CONSIDERATIONS

Unless otherwise indicated in the applicable prospectus supplement, the offered securities may, subject to certain legal restrictions, be held by (i) pension, profit sharing, and other employee benefit plans which are subject to Title I of the Employee Retirement Security Act of 1974, as amended (which we refer to as ERISA), (ii) plans, accounts, and other arrangements that are subject to Section 4975 of the Internal Revenue Code of 1986, as amended (which we refer to as the Code), or provisions under federal, state, local, non-U.S., or other laws or regulations that are similar to any of the provisions of Title I of ERISA or Section 4975 of the Code (which we refer to as Similar Laws), and (iii) entities whose underlying assets are considered to include plan assets of any such plans, accounts, or arrangement. Section 406 of ERISA and Section 4975 of the Code prohibit plans from engaging in specified transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Code with respect to such pension, profit sharing, or other employee benefit plans that are subject to Section 406 of ERISA and Section 4975 of the Code. A violation of these prohibited transaction rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code. A violation of these prohibited transaction rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. A fiduciary of any such plan, account, or arrangement must determine that the purchase and holding of an interest in the offered securities is consistent with its fiduciary duties and will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or a violation under any applicable Similar Laws.

Table of Contents

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for us by Patton Boggs LLP. The name of the law firm advising any underwriters or agents with respect to certain issues relating to any offering will be set forth in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements of TCBI appearing in TCBI's Annual Report (Form 10-K) for the year ended December 31, 2008 and the effectiveness of TCBI's internal control over financial reporting as of December 31, 2008 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. Copies of certain information filed by us with the SEC are also available on our website at <http://www.texascapitalbank.com>. Our website is not a part of this prospectus. You may also read and copy any document we file at the SEC's public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

The SEC allows us to incorporate by reference information we file with it, which means that we can disclose important information to you by referring you to other documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. In all cases, you should rely on the later information over different information included in this prospectus.

We incorporate by reference the documents listed below and all future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the termination of the offering, except to the extent that any information contained in such filings is deemed furnished in accordance with SEC rules, including, but not limited to, information furnished under Items 2.02 and 7.01 of any Current Report on Form 8-K including related exhibits:

Our Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 19, 2009.

Our Current Reports on Form 8-K filed on January 6, 2009, January 16, 2009 and January 29, 2009.

The description of our common stock contained in our Registration Statement on Form 10 filed on August 24, 2000.

We will provide to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the documents or information that have been incorporated by reference in this prospectus but not delivered with this prospectus. We will provide this at no cost to the requestor upon written or telephonic request addressed to Texas Capital Bancshares, Inc., 2000 McKinney Avenue, Suite 700, Dallas, Texas 75201, Attention: Myrna Vance

(telephone: 214-932-6600).

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with additional or different information.

Table of Contents**PART II****INFORMATION NOT REQUIRED IN THE PROSPECTUS****Item 14. *Other Expenses of Issuance and Distribution***

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of the securities being registered hereby, all of which will be borne by TCBI (except any underwriting discounts and commissions and expenses incurred by the selling securityholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling securityholders in disposing of the shares). All amounts shown are estimates except the SEC registration fee.

SEC Registration fee	\$ 8,370
Legal fees and expenses	\$ 50,000
Accounting fees and expenses	\$ 7,500
Other	\$ 10,000
Total Expenses	\$ 75,870

Item 15. *Indemnification of Directors and Officers.*

Section 145 of the Delaware General Corporation Law permits indemnification of officers, directors, and other corporate agents under certain circumstances and subject to certain limitations. Our certificate of incorporation and amended and restated bylaws provide that we shall indemnify our directors, officers, employees, and agents to the full extent permitted by Delaware law. The certificate of incorporation and amended and restated bylaws further provide that we may indemnify directors, officers, employees, and agents in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, we entered into separate indemnification agreements with our directors and officers which would require us, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service (other than liabilities arising from willful misconduct of a culpable nature) and to maintain directors' and officers' liability insurance, if available on reasonable terms.

These indemnification provisions and the indemnification agreements that we have entered into with our officers and directors may be sufficiently broad to permit indemnification of our officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act of 1933, as amended.

We have a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

Item 16. *Exhibits***Exhibit****No.****Description**

- | | |
|-----|---|
| 1.1 | Underwriting Agreement. To be filed as an exhibit to our Current Report on Form 8-K and incorporated by reference or by post-effective amendment. |
| 4.1 | Form of Senior Debt Indenture (Including Form of Note). |
| 4.2 | Form of Subordinated Debt Indenture (Including Form of Note). |

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

- 4.3 Form of Warrant Agreement (Stock) (including form of Warrant). To be filed as an exhibit to our Current Report on Form 8-K and incorporated by reference or by post-effective amendment.
- 4.4 Form of Unit Agreement. To be filed as an exhibit to our Current Report on Form 8-K and incorporated by reference or by post-effective amendment.
- 5.1 Opinion of Patton Boggs LLP
- 12.1 Statement of ratios of earnings to fixed charges
- 23.1 Consent of Ernst & Young LLP
- 23.2 Consent of Patton Boggs LLP (included in Exhibit 5.1)
- 24.1 Power of Attorney of certain officers and directors (located on the signature page to the Registration Statement)

II-1

Table of Contents

Exhibit

No.

Description

- | | |
|------|--|
| 25.1 | Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended (Senior Debt Securities). To be filed in accordance with the requirements of Section 305(b)(2) of the Trust Indenture Act of 1939 and the appropriate rules thereunder. |
| 25.2 | Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended (Subordinated Debt Securities). To be filed in accordance with the requirements of Section 305(b)(2) of the Trust Indenture Act of 1939 and the appropriate rules thereunder. |

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the Securities Act of 1933);

(ii) to reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement;

provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), that are incorporated by reference in this registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of this registration statement.

(2) That, for the purposes of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) each prospectus filed by a registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in

Table of Contents

Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of a registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(6) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(7) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the indemnification provisions described herein, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(8) The undersigned Registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of subsection (a) of section 310 of the Trust Indenture Act in accordance with

the rules and regulations prescribed by the Commission under Section 305(b)2 of the Act.

II-3

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on April 15, 2009.

TEXAS CAPITAL BANCSHARES, INC.

By: /s/ George F. Jones, Jr.

George F. Jones, Jr.
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below does hereby constitute and appoint George F. Jones, Jr. and Peter B. Bartholow, or either of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign this Registration Statement (including all pre-effective and post-effective amendments thereto and all registration statements filed pursuant to Rule 462(b) which incorporate this registration statement by reference), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on April 15, 2009.

Signature	Title
/s/ George F. Jones, Jr. George F. Jones, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Peter B. Bartholow Peter B. Bartholow	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
/s/ Julie Anderson Julie Anderson	Controller (Principal Accounting Officer)

/s/ James R. Holland, Jr.

Chairman of the Board and Director

James R. Holland, Jr.

II-4

Table of Contents

Signature	Title
/s/ Joseph M. Grant Joseph M. Grant	Director
/s/ Frederick B. Hegi, Jr. Frederick B. Hegi, Jr.	Director
/s/ Larry L. Helm Larry L. Helm	Director
/s/ Walter W. McAllister III Walter W. McAllister III	Director
Lee Roy Mitchell	Director
/s/ Steven Rosenberg Steven Rosenberg	Director
/s/ John C. Snyder John C. Snyder	Director
/s/ Robert W. Stallings Robert W. Stallings	Director
/s/ Ian J. Turpin Ian J. Turpin	Director

Table of Contents**EXHIBIT INDEX**

Exhibit No.	Description
1.1	Underwriting Agreement. To be filed as an exhibit to our Current Report on Form 8-K and incorporated by reference or by post-effective amendment.
4.1	Form of Senior Debt Indenture (Including Form of Note).
4.2	Form of Subordinated Debt Indenture (Including Form of Note).
4.3	Form of Warrant Agreement (Stock) (including form of Warrant). To be filed as an exhibit to our Current Report on Form 8-K and incorporated by reference or by post-effective amendment.
4.4	Form of Unit Agreement. To be filed as an exhibit to our Current Report on Form 8-K and incorporated by reference or by post-effective amendment.
5.1	Opinion of Patton Boggs LLP
12.1	Statement of ratios of earnings to fixed charges
23.1	Consent of Ernst & Young LLP
23.2	Consent of Patton Boggs LLP (included in Exhibit 5.1)
24.1	Power of Attorney of certain officers and directors (located on the signature page to the Registration Statement)
25.1	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended (Senior Debt Securities). To be filed in accordance with the requirements of Section 305(b)(2) of the Trust Indenture Act of 1939 and the appropriate rules thereunder.
25.2	Statement of Eligibility on Form T-1 under the Trust Indenture Act of 1939, as amended (Subordinated Debt Securities). To be filed in accordance with the requirements of Section 305(b)(2) of the Trust Indenture Act of 1939 and the appropriate rules thereunder.
End of period/year	\$139.69 \$131.42 \$127.87 \$120.32 \$119.54 \$108.93
Ratio of total expenses to average net assets	2.67%(e) 2.15% 2.83% 2.18% 2.53% 2.04%
Ratio of operating expense to average net assets	1.78%(e) 1.51% 1.51% 1.42% 1.46% 1.41%
Ratio of interest expense to average net assets (d)	0.46%(e) 0.47% 0.49% 0.56% 0.61% 0.63%
Ratio of income tax expenses to average net assets	0.43%(e) 0.17% 0.83% 0.20% 0.46% 0.00%
Ratio of net investment income to average net assets	7.40%(e) 7.77% 8.82% 9.33% 8.96% 8.55%

Portfolio turnover

11% 30% 34% 21% 27% 23%

- (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.
- (e) Annualized

Senior borrowings:

Total principal amount (in millions)	\$ 15	\$ 15	\$ 15	\$ 15	\$ 12	\$ 12
Asset coverage per \$1,000 of indebtedness	\$ 10,313	\$ 9,761	\$ 9,525	\$ 9,021	\$ 10,962	\$ 10,077

See Notes to Consolidated Financial Statements

7

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2014

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 72.14%: (A)				
Private Placement Investments - 60.81% 1492 Acquisition LLC A leading producer of premium Italian cured meats and deli meats in the U.S. 14% Senior Subordinated Note due 2019	\$ 670,765	10/17/12	\$ 659,572	\$ 665,829
Limited Liability Company Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	46,026
Limited Liability Company Unit Class A Preferred (B)	102 uts.	10/17/12	102,270 773,206	112,526 824,381
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	96,028	228,178
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. 14% Senior Subordinated Note due 2020	\$ 1,033,674	12/20/13	1,014,159	1,054,347
Limited Liability Company Unit Class A (B)	3,094 uts.	*	153,704	225,553
Limited Liability Company Unit Class B (B)	1,479 uts.	10/09/09	52,999	107,819
* 10/09/09 and 10/27/10.			1,220,862	1,387,719
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 2015 (D)	\$420,000	05/15/08	413,944	210,000
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	— 210,000
ABC Industries, Inc. A manufacturer of mine and tunneling ventilation products in the U.S. 13% Senior Subordinated Note due 2019	\$500,000	08/01/12	456,923	509,490
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	180,753
Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)	22,414 shs.	08/01/12	42,446	30,323

ACP Cascade Holdings LLC			624,369	720,566
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	—	—

8

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Advanced Manufacturing Enterprises LLC 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	\$ 1,120,747	\$ 1,111,958
Limited Liability Company Unit (B)	1,431 uts.	*	143,077	115,356
* 12/07/12 and 07/11/13.			1,263,824	1,227,314
Advanced Technologies Holdings A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	421 shs.	12/27/07	208,456	682,168
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	45,002
			230,056	727,170
All Current Holding Company A specialty re-seller of essential electrical parts and components primarily serving wholesale distributors.				
Common Stock (B)	713 shs.	09/26/08	71,303	147,137
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	507 shs.	09/26/08	46,584	104,626
			117,887	251,763
American Hospice Management Holding LLC A for-profit hospice care provider in the United States.				
12% Senior Subordinated Note due 2014	\$ 1,237,502	*	1,236,828	1,175,627
Preferred Class A Unit (B)	1,706 uts.	**	170,600	—
Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	—
Common Class B Unit (B)	16,100 uts.	01/22/04	1	—
Common Class D Unit (B)	3,690 uts.	09/12/06	—	—
* 01/22/04 and 06/09/08.			1,488,218	1,175,627
** 01/22/04 and 09/12/06.				

AMS Holding LLC

A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.

Limited Liability Company Unit

Class A Preferred (B)	114 uts.	10/04/12	113,636	230,285
-----------------------	----------	----------	---------	---------

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.

Preferred Stock Series B (B)	1,623 shs.	04/28/09	162,269	259,513
------------------------------	------------	----------	---------	---------

Common Stock (B)	723 shs.	04/28/09	723	380,302
------------------	----------	----------	-----	---------

			162,992	639,815
--	--	--	---------	---------

9

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or	Acquisition		Fair Value
	Ownership Percentage	Date	Cost	
Arch Global Precision LLC A leading manufacturer of high tolerance precision components and consumable tools.				
14.75% Senior Subordinated Note due 2018	\$ 803,736	12/21/11	\$ 789,035	\$ 819,810
Limited Liability Company Unit Class B (B)	26 uts.	12/21/11	28,418	71,187
Limited Liability Company Unit Class C (B)	224 uts.	12/21/11	221,582 1,039,035	577,239 1,468,236
ARI Holding Corporation A leading national supplier of products used primarily by specialty contractors.				
13.5% Senior Subordinated Note due 2020	\$ 1,325,026	05/21/13	1,301,633	1,338,276
Preferred Stock Series (B)	29 shs.	05/21/13	289,604	305,048
Common Stock (B)	29 shs.	05/21/13	32,178 1,623,415	190,903 1,834,227
Arrow Tru-Line Holdings, Inc. A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
12% Senior Subordinated Note due 2016	\$ 205,667	05/18/05	184,102	205,667
Preferred Stock (B)	33 shs.	10/16/09	33,224	110,079
Common Stock (B)	263 shs.	05/18/05	263,298	27,197
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	69 shs.	05/18/05	59,362 539,986	7,130 350,073
Baby Jogger Holdings LLC A designer and marketer of premium baby strollers and stroller accessories.				
14% Senior Subordinated Note due 2019	\$ 942,213	04/20/12	927,781	951,635
Common Stock (B)	754 shs.	04/20/12	75,376 1,003,157	128,439 1,080,074
Blue Wave Products, Inc. A distributor of pool supplies.				
	\$ 317,730	10/12/12	312,833	319,530

10% Senior Secured Term Note due 2018				
13% Senior Subordinated Note due 2019	\$ 323,243	10/12/12	303,569	326,548
Common Stock (B)	51,064 shs.	10/12/12	51,064	81,965
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	20,216 shs.	10/12/12	20,216 687,682	32,449 760,492
BP SCI LLC				
A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.				
14% Senior Subordinated Note due 2018	\$ 1,077,842	10/17/12	1,061,259	1,088,620
Limited Liability Company Unit Class A (B)	417 uts.	10/17/12	41,667	97,418
Limited Liability Company Unit Class B (B)	167 uts.	10/17/12	166,666 1,269,592	198,367 1,384,405

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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 2015	\$1,207,902	06/30/06	\$1,205,503	\$1,147,507
Preferred Stock Class A (B)	465 shs.	06/30/06	141,946	115,431
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	40,567
			1,396,361	1,303,505
C D N T, Inc.				
A value-added converter and distributor of specialty pressure sensitive adhesives, foams, films, and foils.				
12.5% Senior Subordinated Note due 2015	\$429,070	08/07/08	419,663	429,070
Common Stock (B)	41,860 shs.	08/07/08	41,860	108,651
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	32,914 shs.	08/07/08	32,965	85,431
			494,488	623,152
Capital Specialty Plastics, Inc.				
A producer of desiccant strips used for packaging pharmaceutical products.				
Common Stock (B)	55 shs.	*	252	787,507
*12/30/97 and 05/29/99.				
CG Holdings Manufacturing Company				
A coating provider serving the automotive, agricultural, heavy truck and other end markets.				
13% Senior Subordinated Note due 2019	\$1,412,605	05/09/13	1,338,776	1,454,983
Preferred Stock (B)	1,350 shs.	05/09/13	134,972	139,211
Preferred Stock (B)	489 shs.	05/09/13	48,721	50,456
Common Stock (B)	140 shs.	05/09/13	14,864	20,624
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	58 shs.	05/09/13	5,430	8,566
			1,542,763	1,673,840
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.				

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

13.5% Senior Subordinated Note due 2018	\$750,769	01/19/11	723,713	758,277
14% Senior Subordinated Note due 2019	\$194,874	08/03/12	191,815	198,771
Common Stock (B)	375 shs.	01/19/11	37,500	50,185
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250 982,278	39,448 1,046,681

11

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Church Services Holding Company				
A provider of diversified residential services to homeowners in the Houston, Dallas, and Austin markets.				
14.5% Senior Subordinated Note due 2018				
	\$ 418,457	03/26/12	\$ 408,577	\$ 419,292
Common Stock (B)	1,327 shs.	*	132,700	83,424
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)				
	57 shs.	03/26/12	5,740	3,583
*03/26/12, 05/25/12 and 06/19/12.				
			547,017	506,299
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	146,594	223,594
Connecticut Electric, Inc.				
A supplier and distributor of electrical products sold into the retail and wholesale markets.				
Limited Liability Company				
Unit Class A (B)	82,613 uts.	01/12/07	82,613	58,926
Limited Liability Company				
Unit Class C (B)	59,756 uts.	01/12/07	59,756	45,676
Limited Liability Company				
Unit Class D (B)	671,525 uts.	05/03/10	—	742,226
Limited Liability Company				
Unit Class E (B)	1,102 uts.	05/03/10	—	—
			142,369	846,828
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	302,691
Preferred Stock Series C (B)	3,748 shs.	07/05/07	125,207	104,158
Common Stock (B)	380 shs.	07/05/07	4	—
	6.88% int.	*	103,135	—

Limited Partnership Interest
(B)

*08/12/04 and 01/14/05. 599,142 406,849

CorePharma LLC

A manufacturer of oral dose generic pharmaceuticals
targeted at niche applications.

Warrant, exercisable until

2015, to purchase

common stock at \$.001 per

share (B)

10 shs.

08/04/05

72,617

229,059

Crane Rental Corporation

A crane rental company since
1960, headquartered in Florida.

13% Senior Subordinated Note

due 2015

\$ 1,032,750

08/21/08

1,004,877

1,032,750

Common Stock (B)

135,000 shs.

08/21/08

135,000

86,184

Warrant, exercisable until

2016, to purchase

common stock at \$.01 per

share (B)

72,037 shs.

08/21/08

103,143

45,989

1,243,020

1,164,923

12

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
CTM Holding, Inc.				
A leading owner and operator of coin-operated children's rides, penny presses and candy kiosks in the U.S.				
15% Senior Subordinated Note due 2019	\$1,203,510	11/22/13	\$1,181,420	\$1,237,089
Common Stock (B)	31,044 shs.	11/22/13	443,182	327,595
			1,624,602	1,564,684
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.				
Preferred Stock PIK (B)	156 shs.	10/27/09	156,468	223,215
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	163,085
Common Stock (B)	38 shs.	10/27/09	38,244	34,670
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735	25,331
			324,821	446,301
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	\$1,335,655	05/04/12	1,315,403	1,330,099
Preferred Stock (B)	25 shs.	05/04/12	252,434	282,383
Common Stock (B)	25 shs.	05/04/12	28,048	84,273
			1,595,885	1,696,755
Duncan Systems, Inc.				
A distributor of windshields and side glass for the recreational vehicle market.				
13% Senior Subordinated Note due 2015	\$488,572	11/01/06	480,995	488,572
Common Stock (B)	102,857 shs.	11/01/06	102,857	57,683
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	32,294 shs.	11/01/06	44,663	18,111
			628,515	564,366
E S P Holdco, Inc.				
A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network.				
Common Stock (B)	349 shs.	01/08/08	174,701	244,744

Eatem Holding Company

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

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	874,869	959,500
Common Stock (B)	50 shs.	02/01/10	50,000	74,199
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	119 shs.	02/01/10	107,100	176,920
			1,031,969	1,210,619

13

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(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.				
Common Stock (B)	41 shs.	03/01/12	\$90,909	\$139,073
EPM Holding Company				
A provider of non-discretionary regulatory driven engineering services that support mission critical safety and operational aspects of nuclear power plants.				
14.5% Senior Subordinated Note due 2019	\$589,032	07/26/13	578,717	606,703
Common Stock (B)	1,535 shs.	07/26/13	153,474	89,375
			732,191	696,078
ERG Holding Company LLC				
A provider of inpatient and outpatient clinical trial services to pharmaceutical companies and contract research organizations.				
13.5% Senior Subordinated Note due 2019	\$933,734	*	915,681	942,478
Common Stock (B)	31 shs.	04/04/14	77,533	77,525
*04/04/14 and 06/30/14.			993,214	1,020,003
F F C Holding Corporation				
A leading U.S. manufacturer of private label frozen novelty and ice cream products.				
Limited Liability Company Unit Preferred (B)	171 uts.	09/27/10	58,345	203,569
Limited Liability Company Unit (B)	171 uts.	09/27/10	17,073	25,350
			75,418	228,919
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.				
Limited Liability Company Unit (B)	80,559 uts.	04/15/14	—	80,559
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	118,649
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	16,913
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	13,373
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	24,473
			105,046	253,967

G C Holdings

A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	46,958	109,457
---	----------	----------	--------	---------

14

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
GD Dental Services LLC				
A provider of convenient "onestop" general, specialty, and cosmetic dental services with 21 offices located throughout South and Central Florida.				
Limited Liability Company Unit Common (B)	767 uts.	10/05/12	\$767	\$43,446
Limited Liability Company Unit Preferred (B)	76 uts.	10/05/12	75,920	82,681
			76,687	126,127
GenNx Novel Holding, Inc.				
A manufacturer and distributor of nutraceutical ingredients.				
13% Senior Subordinated Note due 2020	\$1,566,173	03/27/14	1,535,764	1,578,774
Common Stock (B)	155 shs.	03/27/14	155,000	133,439
			1,690,764	1,712,213
gloProfessional Holdings, Inc.				
A marketer and distributor of premium mineral-based cosmetics, cosmeceuticals and professional hair care products to the professional spa and physician's office channels.				
14% Senior Subordinated Note due 2019	\$1,160,664	03/27/13	1,141,330	1,167,044
Common Stock (B)	1,181 shs.	03/27/13	118,110	129,624
			1,259,440	1,296,668
Golden County Foods Holding, Inc.				
A manufacturer of frozen appetizers and snacks.				
14% Senior Subordinated Note due 2019 (D)	\$38,950	11/13/13	231,183	—
Preferred Stock (B)	151,643 shs.	11/13/13	77,643	—
Preferred Stock Series F (B)	155,800 shs.	11/13/13	924,731	—
			1,233,557	—
GTI Holding Company				
A designer, developer, and marketer of precision specialty hand tools and handheld test instruments.				
12% Senior Subordinated Note due 2020	\$727,865	02/05/14	678,773	740,629
Common Stock (B)	846 shs.	02/05/14	84,636	74,061
Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B)	397 shs.	02/05/14	36,816	34,754
			800,225	849,444
Handi Quilter Holding Company				
A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.				
Common Stock (B)	38 shs.	11/14/11	38,461	123,878
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	28 shs.	11/14/11	25,596	88,705

15

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
	—	—	—	—
Hartland Controls Holding Corporation				
A manufacturer and distributor of electronic and electromechanical components.				
14% Senior Subordinated Note due 2019	\$1,473,281	02/14/14	\$1,445,249	\$1,494,770
Common Stock (B)	821 shs.	02/14/14	822	47,476
Preferred Stock Series A (B)	2,547 shs.	02/14/14	254,734	257,875
			1,700,805	1,800,121
Healthcare Direct Holding Company				
A direct-to-customer marketer of discount dental plans.				
14% Senior Subordinated Note due 2019 (D)	\$731,712	03/09/12	719,498	708,568
16% Senior Subordinated PIK Note due 2019	\$45,901	03/31/14	45,901	44,437
Common Stock (B)	517 shs.	03/09/12	51,724	49,173
			817,123	802,178
HHI Group, LLC				
A developer, marketer, and distributor of hobby-grade radio control products.				
14% Senior Subordinated Note due 2020	\$1,537,349	01/17/14	1,508,384	1,563,425
Limited Liability Company Unit (B)	102 uts.	01/17/14	101,563	69,834
			1,609,947	1,633,259
Hi-Rel Group LLC				
A manufacturer and distributor of precision metal piece parts for the microelectronic packaging industry, serving the aerospace/ defense, telecommunications, and medical end markets.				
12% Senior Subordinated Note due 2018	\$703,125	04/15/13	665,256	710,239
Limited Liability Company Unit (B)	234 uts.	04/15/13	234,375	155,281
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37,177 shs.	04/15/13	32,344	23,456
			931,975	888,976
Home Decor Holding Company				
A designer, manufacturer and marketer of framed art and wall decor products.				
Common Stock (B)	33 shs.	*	33,216	93,016
Warrant, exercisable until 2016, to purchase common stock at \$.02 per share (B)	106 shs.	*	105,618	295,736
* 06/30/04 and 08/19/04.			138,834	388,752
HOP Entertainment LLC				
A provider of post production equipment and services to producers of television shows and motion pictures.				

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

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	—	—

16

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Hospitality Mints Holding Company				
A manufacturer of individually-wrapped imprinted promotional mints.				
12% Senior Subordinated Note due 2016	\$1,098,837	08/19/08	\$1,066,613	\$1,093,539
Common Stock (B)	251 shs.	08/19/08	251,163	79,177
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	60,233	20,466
			1,378,009	1,193,182
HVAC Holdings, Inc.				
A provider of integrated energy efficiency services and maintenance programs for HVAC systems.				
14% Senior Subordinated Note due 2019	\$1,176,999	09/27/12	1,158,071	1,197,089
Preferred Stock Series A (B)	1,127 shs.	09/27/12	112,726	135,157
Common Stock (B)	910 shs.	09/27/12	910	20,940
			1,271,707	1,353,186
Ideal Tridon Holdings, Inc.				
A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.				
Common Stock (B)	93 shs.	10/27/11	92,854	192,591
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	381,153
J A C Holding Enterprises, Inc.				
A supplier of luggage racks and accessories to the original equipment manufacturers.				
Preferred Stock A (B)	165 shs.	12/20/10	165,000	249,416
Preferred Stock B (B)	0.06 shs.	12/20/10	—	91
Common Stock (B)	33 shs.	12/20/10	1,667	85,605
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	12 shs.	12/20/10	105,643	102,384
			272,310	437,496
Janus Group Holdings LLC				
A manufacturer of roll-up doors and hallway systems that are primarily used in self-storage facilities.				
13.5% Senior Subordinated Note due 2019	\$1,342,391	12/11/13	1,317,416	1,382,663

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Limited Liability Company Unit Class A (B)	283 uts.	12/11/13	232,837	371,940
			1,550,253	1,754,603
JMH Investors LLC				
A developer and manufacturer of custom formulations for a wide variety of foods.				
14.25% Senior Subordinated Note due 2019	\$1,069,689	12/05/12	1,052,039	1,043,720
	217,391			
Limited Liability Company Unit (B)	uts.	12/05/12	217,391	113,001
			1,269,430	1,156,721

17

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
K & N Parent, Inc.				
A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.				
14% Senior Subordinated Note due 2019	\$1,159,972	12/23/11	\$1,136,995	\$1,194,771
Preferred Stock Series A (B)	102 shs.	12/23/11	39,887	45,092
Preferred Stock Series B (B)	29 shs.	12/23/11	—	—
Common Stock (B)	163 shs.	*	6,522	196,634
* 12/23/11 and 06/30/14.			1,183,404	1,436,497
K N B Holdings Corporation				
A designer, manufacturer and marketer of products for the custom framing market.				
Common Stock (B)	71,053 shs.	05/25/06	71,053	49,762
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	37,871 108,924	30,535 80,297
K P I Holdings, Inc.				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
Convertible Preferred Stock Series C (B)	29 shs.	06/30/09	29,348	83,617
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	109,521
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	51 shs.	07/16/08	50,836	23,716
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	67 shs.	09/17/09	— 327,925	31,441 287,175
LPC Holding Company				
A designer and manufacturer of precision-molded silicone rubber components that are utilized in the medical and automotive end markets.				
Common Stock (B)	105 shs.	08/15/11	105,019	163,219
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.				
Common Stock (B)	32 shs.	09/12/08	32,143	—
Warrant, exercisable until 2018, to purchase				

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

common stock at \$.01 per share (B)	35 shs.	09/12/08	34,714	—
			66,857	—

18

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Mail Communications Group, Inc. A provider of mail processing and handling services, lettershop services, and commercial printing services.				
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.	*	\$ 166,481	\$ 158,644
	1,787 shs.	05/04/07	22,781	22,212
			189,262	180,856
Manhattan Beachwear Holding Company A designer and distributor of women's swimwear.				
12.5% Senior Subordinated Note due 2018	\$ 419,971	01/15/10	388,473	419,971
15% Senior Subordinated Note due 2018	\$ 112,416	10/05/10	111,109	112,021
Common Stock (B)	35 shs.	10/05/10	35,400	67,253
Common Stock Class B (B)	118 shs.	01/15/10	117,647	223,511
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	01/15/10	94,579	197,807
			747,208	1,020,563
MedSystems Holdings LLC A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.				
Preferred Unit (B)	66 uts.	08/29/08	66,451	82,182
Common Unit Class A (B)	671 uts.	08/29/08	671	68,822
Common Unit Class B (B)	263 uts.	08/29/08	63,564	26,999
			130,686	178,003
Merex Holding Corporation 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 2019		\$454,295	09/22/11	447,840
Limited Liability Company Unit Series A		228 uts.	04/30/14	14,760
Limited Liability Company Unit Series B (B)		155,945 uts.	09/22/11	155,945
			618,545	660,350

MicroGroup, Inc.

A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars.

7% Senior Subordinated Note due 2014 (D)	\$902,727	*	865,676	—
Preferred Stock Series A (B)	519 shs.	10/10/12	498,734	—
Common Stock (B)	238 shs.	*	238,000	—
Common Stock Series B (B)	597 shs.	10/10/12	6	—
Warrant, exercisable until 2014, to purchase common stock at \$.02 per share (B)	87 shs.	*	86,281	—
* 08/12/05 and 09/11/06.			1,688,697	—

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
MNX Holding Company				
An international third party logistics company providing customized logistics services to customers across the globe.				
14% Senior Subordinated Note due 2019	\$1,246,044	11/02/12	\$1,225,730	\$1,169,989
Common Stock (B)	45 shs.	11/02/12	44,643	9,458
			1,270,373	1,179,447
Motion Controls Holdings				
A manufacturer of high performance mechanical motion control and linkage products.				
14.25% Senior Subordinated Note due 2017	\$965,657	11/30/10	955,211	965,657
Limited Liability Company Unit Class B-1 (B)	75,000 uts.	11/30/10	—	92,017
Limited Liability Company Unit Class B-2 (B)	6,801 uts.	11/30/10	—	8,344
			955,211	1,066,018
NABCO, Inc.				
A producer of explosive containment vessels in the United States.				
Common Stock (B)	429 shs.	12/20/12	306,091	—
NetShape Technologies, Inc.				
A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.				
14% Senior Subordinated Note due 2015	\$1,061,463	02/02/07	1,045,391	1,008,389
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	—
Limited Liability Company Unit Class D-1 of Saw Mill PCG Partners LLC (B)	121 uts.	09/30/09	121,160	59,646
Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	34,547	132,460
* 12/18/08 and 09/30/09.			1,798,048	1,200,495
Nicoat Acquisitions LLC				
A manufacturer of water-based and ultraviolet coatings for high-performance graphic arts, packaging and other specialty coating applications.				
14% Senior Subordinated Note due 2018	\$484,973	11/05/10	458,169	484,973
Limited Liability Company Unit Series B (B)	17,241 uts.	11/05/10	17,241	33,759
Limited Liability Company Unit Series B (B)	34,931 uts.	11/05/10	34,931	68,395

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Limited Liability Company Unit Series F (B)	34,931 uts.	11/05/10	—	8,453
			510,341	595,580

20

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Northwest Mailing Services, Inc.				
A producer of promotional materials for companies that use direct mail as part of their customer retention and loyalty programs.				
Limited Partnership Interest (B)	1,740 uts.	*	\$174,006	\$163,371
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	2,605 shs.	*	260,479	244,558
* 07/09/09 and 08/09/10.			434,485	407,929
NT Holding Company				
A leading developer, manufacturer and provider of medical products used primarily in interventional pain management.				
Common Stock (B)	126 shs.	*	125,883	287,571
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	59 shs.	02/02/11	52,987	134,214
* 02/02/11 and 06/30/11.			178,870	421,785
O E C Holding Corporation				
A provider of elevator maintenance, repair and modernization services.				
13% Senior Subordinated Note due 2018	\$444,445	06/04/10	422,148	444,445
Preferred Stock Series A (B)	554 shs.	06/04/10	55,354	25,952
Preferred Stock Series B (B)	311 shs.	06/04/10	31,125	—
Common Stock (B)	344 shs.	06/04/10	344	—
			508,971	470,397
Ontario Drive & Gear Ltd.				
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	782,736
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	328 shs.	01/17/06	90,424	132,155
			393,309	914,891
P K C Holding Corporation				
A manufacturer of plastic film and badges for the general industrial, medical, and food industries.				
Preferred Stock Class A (B)	29 shs.	12/21/10	180,380	346,474
Common Stock (B)	29 shs.	12/21/10	13,500	155,177
			193,880	501,651
P P T Holdings LLC				

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

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	\$993,533	12/20/10	982,463	993,533
Limited Liability Company Unit Class A (B)	33 uts.	12/20/10	106,071	136,596
Limited Liability Company Unit Class B (B)	33 uts.	12/20/10	1,072	44,496
			1,089,606	1,174,625

21

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Pacific Consolidated Holdings LLC				
A manufacturer of rugged, mobile liquid and gaseous oxygen and nitrogen generating systems used in the global defense, oil and gas, and medical sectors.				
0% Senior Subordinated Note due 2014 (B)	\$ 42,188	12/18/12	\$ —	\$ 42,188
Pearlman Enterprises, Inc.				
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	63,119
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	63,119
Petroplex Inv Holdings LLC				
A leading provider of acidizing services to E&P customers in the Permian Basin.				
16% Senior Subordinated Note due 2018	\$ 1,166,064	11/29/12	1,144,299	1,211,604
Limited Liability Company Unit (B)	0 ut.	11/29/12	156,250	212,806
			1,300,549	1,424,410
Precision Wire Holding Company				
A manufacturer of specialty medical wires that are used in non-elective minimally invasive surgical procedures.				
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	109 shs.	11/12/09	107,970	196,392
R A J Manufacturing Holdings LLC				
A designer and manufacturer of women's swimwear sold under a variety of licensed brand names.				
8% Senior Subordinated Note due 2017	\$ 49,908	01/02/14	217,411	49,908
Limited Liability Company Unit (B)	1,497 uts.	12/15/06	149,723	18,378
Limited Liability Company Unit Class B	6 uts.	01/02/14	219,593	26,955
Limited Liability Company Unit Class B-1	9 uts.	01/02/14	374,307	374,308
Warrant, exercisable until 2014, to purchase common stock at \$.01 per share (B)	2 shs.	12/15/06	69,609	8,673
			1,030,643	478,222
REVSpring, Inc.				
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		\$1,172,371	*	1,157,645
				1,194,254

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Limited Liability Company Unit Class A (B)	13,548 uts.	*	135,477	156,619
* 10/21/11 and 08/03/12.			1,293,122	1,350,873

Rose City Holding Company

A designer and printer of folding cartons and packaging for food and beverage manufacturers on the West Coast.

Preferred Stock (B)	39,062 shs.	12/11/12	39,062	44,501
Common Stock (B)	39 shs.	12/11/12	4	42,123
			39,066	86,624

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Safety Infrastructure Solutions				
A provider of trench safety equipment to a diverse customer base across multiple end markets in Texas and the Southwestern United States.				
15% Senior Subordinated Note due 2018	\$843,750	*	\$834,291	\$852,188
Preferred Stock (B)	2,098 shs.	03/30/12	83,920	100,637
Common Stock (B)	983 shs.	03/30/12	9,830	43,362
* 03/30/12 and 05/16/13.			928,041	996,187
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.				
7% Senior Subordinated Note due 2014 (D)	\$1,379,943	01/15/09	826,004	—
Signature Systems Holding Company				
A seller and installer of a variety of modular surfaces, industrial matting and related products used for ground protection.				
12.5% Senior Subordinated Note due 2021	\$755,088	03/15/13	715,946	770,190
Common Stock (B)	76 shs.	03/15/13	75,509	140,859
Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B)	31 shs.	03/15/13	28,316	57,549
			819,771	968,598
Smart Source Holdings LLC				
A short-term computer rental company.				
Limited Liability Company Unit (B)	328 uts.	*	261,262	485,489
Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B)	83 shs.	*	67,467	122,975
* 08/31/07 and 03/06/08.			328,729	608,464
SMB Machinery Holdings, Inc.				
A reseller of used, rebuilt and refurbished packaging and processing equipment, primarily serving the bottling and food manufacturing industries.				
14% Senior Subordinated Note due 2019	\$738,694	10/18/13	725,266	713,577
Common Stock (B)	841 shs.	10/18/13	84,100	2,446
			809,366	716,023
Snacks Parent Corporation				
The world's largest provider of trail mixes and a leading provider of snack nuts, dried fruits, and other healthy snack products.				

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

13% Senior Subordinated Note due 2020	\$900,960	11/12/10	865,922	900,960
Preferred Stock A (B)	1,132 shs.	11/12/10	100,501	81,177
Preferred Stock B (B)	525 shs.	11/12/10	—	37,669
Common Stock (B)	6,579 shs.	11/12/10	6,579	292,023
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	1,806 shs.	11/12/10	1,806 974,808	80,169 1,391,998

23

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Spartan Foods Holding Company				
A manufacturer of branded pizza crusts and pancakes.				
14.25% Senior Subordinated Note due 2017	\$1,200,671	12/15/09	\$1,099,050	\$1,210,748
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	136 shs.	12/15/09	120,234 1,219,284	96,351 1,307,099
Specialty Commodities, Inc.				
A distributor of specialty food ingredients.				
Common Stock (B)	16 shs.	10/23/08	158,824	423,423
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6 shs.	10/23/08	53,285 212,109	159,963 583,386
Stag Parkway Holding Company				
A distributor of RV parts and accessories in the United States.				
13% Senior Subordinated Note due 2018	\$1,149,231	12/19/12	1,105,957	1,172,215
Common Stock (B)	118 shs.	12/19/12	118,203	123,077
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	35 shs.	12/19/12	31,848 1,256,008	36,142 1,331,434
Strahman Holdings Inc				
A manufacturer of industrial valves and wash down equipment for a variety of industries, including chemical, petrochemical, polymer, pharmaceutical, food processing, beverage and mining.				
14% Senior Subordinated Note due 2019	\$1,059,783	12/13/13	1,039,592	1,085,613
Preferred Stock Series A (B)	158,967 shs.	12/13/13	158,967 1,198,559	161,490 1,247,103
Strata/WLA Holding Corporation				
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 (D)	\$959,148	07/01/11	943,703	—
Preferred Stock Series A (B)	76 shs.	07/01/11	76,046 1,019,749	— —
Sundance Investco LLC				
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	—	—
--	------------	----------	---	---

24

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Sunrise Windows Holding Company				
A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.				
14% Senior Subordinated Note due 2017	\$ 1,033,333	12/14/10	\$ 997,975	\$ 1,034,451
14% Senior Subordinated PIK Note due 2017	\$ 97,130	08/17/12	94,549	97,235
Common Stock (B)	38 shs.	12/14/10	38,168	30,195
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37 shs.	12/14/10	37,249 1,167,941	29,467 1,191,348
Synteract Holdings Corporation				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
14% Senior Subordinated Note due 2019	\$ 1,957,699	09/02/08	1,899,014	1,761,929
Preferred Stock Series D (B)	257 shs.	02/27/13	25,678	—
Redeemable Preferred Stock Series A (B)	678 shs.	09/02/08	6,630	—
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6,778 shs.	09/02/08	59,661 1,990,983	— 1,761,929
Terra Renewal LLC				
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 2016 (D)		\$350,860	*	9,345
Common Stock Class B		32 shs.	*	—
Limited Partnership Interest of Saw Mill Capital Fund V, LLC (B)		2.27% int.	**	65,387
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)		41 shs.	04/28/06	33,738
				108,470
				350,860

** 03/01/05 and 10/10/08.

Torrent Group Holdings, Inc.

A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow.

15% Senior Subordinated Note due 2020 (D)	\$46,798	12/05/13	219,203	—
3% Senior Subordinated Note due 2018 (D)	\$1,062,258	12/05/13	—	956,032
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	28,079	12/05/13	—	—
			219,203	956,032

25

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Transpac Holding Company				
A designer, importer, and wholesaler of home decor and seasonal gift products.				
12% Senior Subordinated Note due 2015 (D)	\$938,651	10/31/07	\$909,276	\$281,595
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	—
			1,066,086	281,595
Tranzonic Holdings LLC				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
14% Senior Subordinated Note due 2019	\$1,506,624	07/05/13	1,480,394	1,521,690
	147,727			
Limited Liability Company Unit Class A (B)	shs.	07/05/13	147,727	149,747
			1,628,121	1,671,437
Truck Bodies & Equipment International				
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 2016	\$727,062	*	714,484	727,062
Preferred Stock Series B (B)	128 shs.	10/20/08	127,677	512,748
Common Stock (B)	393 shs.	*	423,985	—
Warrant, exercisable until 2017, 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.			1,350,796	1,239,810
TruStile Doors, Inc.				
A manufacturer and distributor of interior doors.				
Limited Liability Company Unit (B)	5,888 uts.	02/28/11	78,125	206,007
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	3,060 shs.	04/11/03	36,032	22,670
			114,157	228,677
U-Line Corporation				
A manufacturer of high-end, built-in, undercounter ice making, wine storage and refrigeration appliances.				
Common Stock (B)	96 shs.	04/30/04	96,400	227,843

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	122 shs.	04/30/04	112,106 208,506	288,349 516,192
---	----------	----------	--------------------	--------------------

26

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
U M A Enterprises, Inc.				
An importer and wholesaler of home decor products.				
15% Senior Subordinated Note due 2021	\$1,236,665	06/06/14	\$338,374	\$1,236,665
Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B)	791 shs.	06/06/14	— 338,374	— 1,236,665
Vitex Packaging Group, Inc.				
A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.				
Class B Unit (B)	406,525 uts.	10/29/09	184,266	—
Class C Unit (B)	450,000 uts.	10/29/09	413,244	91,931
Limited Liability Company Unit Class A (B)	383,011 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.			923,711	91,931
VP Holding Company				
A provider of school transportation services for special-needs and homeless children in Massachusetts.				
13% Senior Subordinated Note due 2020	\$500,590	03/31/14	490,883	510,542
Common Stock (B)	3,632 shs.	03/31/14	363,158 854,041	345,000 855,542
Wellborn Forest Holding Company				
A manufacturer of semi-custom kitchen and bath cabinetry.				
12.13% Senior Subordinated Note due 2016 (D)	\$1,680,931	11/30/06	867,531	—
Common Stock (B)	101 shs.	11/30/06	101,250	—
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	51 shs.	11/30/06	45,790 1,014,571	— —
Wheaton Holding Corporation				
A distributor and manufacturer of laboratory supply products and packaging.				
Preferred Stock Series B (B)	703 shs.	06/08/10	70,308	101,325
Common Stock (B)	353 shs.	06/08/10	353 70,661	47,679 149,004
Whitcraft Holdings, Inc.				
A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components.				

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

12% Senior Subordinated Note due 2018	\$794,521	12/16/10	750,180	791,272
Common Stock (B)	205 shs.	12/16/10	205,480	84,113
Warrant, exercisable until 2018, to purchase common stock at \$.02 per share (B)	55 shs.	12/16/10	49,334 1,004,994	22,604 897,989

27

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
WP Supply Holding Corporation				
A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest.				
14.5% Senior Subordinated Note due 2018	\$908,288	11/03/11	\$895,793	\$926,455
Common Stock (B)	1,500 shs.	11/03/11	150,000	191,275
			1,045,793	1,117,730
Total Private Placement Investments (E)			\$84,517,499	\$84,945,420

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

	Interest		Due	Principal		Market
Corporate Restricted Securities: (A) (Continued)	Rate		Date	Amount	Cost	Value
Rule 144A Securities - 11.33%:						
Bonds 11.33%						
Alliant Techsystems Inc.	5.250	%	10/01/21	\$ 500,000	\$ 500,000	\$ 516,250
ArcelorMittal	6.125		06/01/18	500,000	510,763	548,750
Belden Inc.	5.250		07/15/24	210,000	210,000	211,575
Cornerstone Chemical Company	9.375		03/15/18	375,000	383,089	396,563
CTP Transportation Products, LLC	8.250		12/15/19	310,000	310,000	334,025
First Data Corporation	7.375		06/15/19	250,000	250,000	268,438
Forest Laboratories, Inc.	5.000		12/15/21	370,000	370,000	405,468
Forest Laboratories, Inc.	4.875		02/15/21	500,000	500,000	546,010
Forum Energy Technologies	6.250		10/01/21	160,000	160,000	169,600
Hercules Offshore, Inc.	7.500		10/01/21	750,000	750,000	744,375
Hilcorp Energy Company	7.625		04/15/21	325,000	313,477	355,063
Hilcorp Energy Company	5.000		12/01/24	335,000	335,000	335,000
Hilton Worldwide Holdings, Inc.	5.625		10/15/21	750,000	750,000	796,875
J.B. Poindexter Co., Inc.	9.000		04/01/22	500,000	500,000	556,250
JBS USA Holdings, Inc.	7.750		10/28/20	375,000	394,487	401,250
Lamar Media Corporation	5.375		01/15/24	160,000	160,000	165,600
LBC Tank Terminals Holding Netherlands B.V.	6.875		05/15/23	663,000	683,281	699,464
Lifepoint Hospitals, Inc.	5.500		12/01/21	350,000	360,335	366,624
MEG Energy Corporation	6.375		01/30/23	500,000	500,000	531,250
MEG Energy Corporation	7.000		03/31/24	500,000	500,000	551,250
Niska Gas Storage Partners LLC	6.500		04/01/19	500,000	500,000	480,000
NRG Energy, Inc.	6.250		07/15/22	500,000	500,000	532,500
Numericable Group SA	4.875		05/15/19	240,000	240,000	246,300
NXP BV/NXP Funding LLC	3.750		06/01/18	750,000	750,000	751,875
Penske Corporation	4.875		07/11/22	500,000	498,185	547,135
RKI Inc.	8.500		08/01/21	500,000	502,296	542,500
Prestige Brands Holdings, Inc.	5.375		12/15/21	650,000	650,000	663,000

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Safway Group Holding LLC/Finance Corporation	7.000	05/15/18	250,000	250,000	265,000
Samson Investment Company	9.750	02/15/20	350,000	342,627	368,813

29

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Interest Rate	Due Date	Shares or Principal Amount	Cost	Market Value
Sirius XM Radio Inc.	5.875	% 10/01/20	\$445,000	\$445,000	\$470,588
Sprint Corporation	7.125	06/15/24	155,000	155,000	164,300
Tesoro Logistics LP	5.875	10/01/20	500,000	510,494	527,500
Topaz Marine S.A.	8.625	11/01/18	500,000	500,000	538,750
Univision Communications	5.125	05/15/23	160,000	160,000	169,400
Valeant Pharmaceuticals International	7.000	10/01/20	250,000	250,677	265,625
Welltec A/S	8.000	02/01/19	375,000	369,425	399,375
Total Bonds				15,064,136	15,832,341
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				15,064,136	15,832,341
Total Corporate Restricted Securities				\$99,581,635	\$100,777,761

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

	Interest	Due	Principal		Market
Corporate Public Securities - 29.75%: (A)	Rate	Date	Amount	Cost	Value
Bank Loans - 0.12%					
Aquilex Holdings LLC	5.250 %	12/31/20	\$ 170,548	\$ 170,148	\$ 169,695
Total Bank Loans				170,148	169,695
Bonds - 29.62%					
AAAR Corporation	7.250 %	01/15/22	\$ 1,000,000	\$ 1,055,509	\$ 1,095,000
Access Midstream Partners, L.P.	4.875	03/15/24	500,000	500,000	528,125
Accuride Corp	9.500	08/01/18	500,000	486,069	526,700
ADT Corporation	6.250	10/15/21	500,000	517,713	530,000
Alcoa, Inc.	6.150	08/15/20	600,000	624,790	677,854
Alliant Techsystems Inc.	6.875	09/15/20	500,000	531,115	540,000
Ally Financial, Inc.	5.500	02/15/17	750,000	760,035	812,813
Alta Mesa Financial Services	9.625	10/15/18	750,000	731,859	787,500
Antero Resources Corporation	5.375	11/01/21	395,000	395,000	409,813
American Axle & Manufacturing, Inc.	5.125	02/15/19	120,000	120,000	126,000
Anglogold Holdings PLC	5.375	04/15/20	600,000	604,340	609,340
Avis Budget Car Rental	9.750	03/15/20	375,000	375,000	424,688
B E Aerospace, Inc.	6.875	10/01/20	250,000	255,631	271,563
B&G Foods, Inc.	4.625	06/01/21	440,000	440,000	441,100
Bank of America Corporation	4.000	04/01/24	500,000	498,163	510,266
Bill Barrett Corporation	7.000	10/15/22	500,000	481,689	530,000
Braskem Finance Ltd.	6.450	02/03/24	375,000	375,000	400,781
Brunswick Corporation	7.125	08/01/27	500,000	504,614	534,375
Calumet Specialty Products Partners L.P.	7.625	01/15/22	500,000	503,060	537,500
CCO Holdings Capital Corporation	5.250	09/30/22	500,000	495,702	507,500
CCO Holdings Capital Corporation	5.750	01/15/24	500,000	483,065	511,250
Centurytel, Inc.	5.000	02/15/15	500,000	502,271	510,625

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

CHC Helicopter SA	9.250	10/15/20	900,000	843,469	981,000
Chrysler Group, LLC	8.000	06/15/19	210,000	226,219	228,113
Chrysler Group, LLC	8.250	06/15/21	210,000	231,098	237,300
Cimarex Energy Co.	5.875	05/01/22	500,000	536,056	552,500
CIT Group, Inc.	5.000	08/15/22	500,000	500,000	517,500
CIT Group, Inc.	3.875	02/19/19	500,000	500,000	507,800
Clearwater Paper Corporation	4.500	02/01/23	500,000	495,513	485,000
Coeur d'Alene Mines Corporation	7.875	02/01/21	500,000	501,703	502,500
Commercial Metals Company	4.875	05/15/23	750,000	751,434	731,250
Continental Resources, Inc.	5.000	09/15/22	500,000	510,056	543,750
CVR Refining LLC	6.500	11/01/22	350,000	338,566	369,250
DaVita, Inc.	5.750	08/15/22	500,000	500,000	534,375
Duke Realty Limited Partnership	3.875	10/15/22	500,000	506,140	508,954

31

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Public Securities: (A) (Continued)	Interest Rate	Due Date	Principal Amount	Cost	Market Value
EnSCO PLC	3.250	% 03/15/16	\$ 600,000	\$ 599,115	\$ 624,449
Equifax, Inc.	4.450	12/01/14	500,000	501,739	508,039
GATX Corporation	4.750	05/15/15	500,000	497,231	517,931
General Electric Capital Corporation	5.500	01/08/20	500,000	498,772	579,603
HCA Holdings, Inc.	3.750	03/15/19	500,000	500,000	504,375
Headwaters, Inc.	7.625	04/01/19	305,000	305,109	325,588
HealthSouth Corporation	7.750	09/15/22	405,000	405,819	441,956
Hertz Corporation	6.750	04/15/19	220,000	217,559	233,200
Hornbeck Offshore Services, Inc.	5.000	03/01/21	500,000	500,000	498,750
Icahn Enterprises L.P.	4.875	03/15/19	475,000	475,000	489,250
Icahn Enterprises L.P.	6.000	08/01/20	600,000	611,308	642,750
International Game Technology	7.500	06/15/19	500,000	499,834	568,375
Jabil Circuit, Inc.	4.700	09/15/22	500,000	499,970	506,250
Johnson Controls, Inc.	5.500	01/15/16	500,000	471,666	534,893
Kraft Foods, Inc.	5.375	02/10/20	500,000	510,857	574,749
Lazard Group LLC	4.250	11/14/20	500,000	498,483	523,848
Lear Corporation	4.750	01/15/23	375,000	368,249	373,125
Lennar Corporation	4.750	11/15/22	375,000	369,756	373,125
Linn Energy, LLC	8.625	04/15/20	500,000	504,492	540,000
Masco Corporation	7.125	03/15/20	350,000	349,999	411,852
MasTec, Inc.	4.875	03/15/23	500,000	490,281	492,500
Meritor, Inc.	6.750	06/15/21	1,000,000	1,000,000	1,075,600
Morgan Stanley	5.500	01/26/20	500,000	498,311	572,283
NBC Universal Media LLC	5.150	04/30/20	500,000	499,527	573,772
Nexo Solutions LLC	8.375	03/01/18	20,000	20,000	20,200
Omnova Solutions, Inc.	7.875	11/01/18	750,000	760,968	787,500
Peabody Energy Corporation	6.000	11/15/18	500,000	500,448	521,250
Perry Ellis International, Inc.	7.875	04/01/19	375,000	372,148	388,125
Precision Drilling Corporation	6.625	11/15/20	250,000	256,313	267,500
Qwest Diagnostic, Inc.	4.750	01/30/20	500,000	499,175	540,893

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Regency Energy Partners LP	5.875	03/01/22	425,000	418,257	461,656
Rosetta Resources Inc.	5.875	06/01/22	500,000	500,000	522,500
R.R. Donnelley & Sons Company	6.000	04/01/24	500,000	500,000	505,000
ServiceMaster Company	7.000	08/15/20	500,000	500,000	531,875
Sprint Nextel Corporation	6.000	12/01/16	500,000	507,435	544,375
Steelcase, Inc.	6.375	02/15/21	500,000	506,362	574,766
Stone Energy Corporation	7.500	11/15/22	500,000	514,268	551,250
Tech Data Corporation	3.750	09/21/17	500,000	504,965	523,868
Time Warner Cable, Inc.	5.000	02/01/20	500,000	493,646	560,305

32

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Corporate Public Securities: (A)	Interest Rate	Due Date	Shares or Principal Amount	Cost	Market Value
T-Mobile USA Inc.	6.464 %	04/28/19	\$ 340,000	\$ 345,209	\$ 357,850
T-Mobile USA Inc.	6.731	04/28/22	210,000	207,644	226,538
T-Mobile USA Inc.	6.836	04/28/23	65,000	63,656	70,769
Tronox Finance LLC	6.375	08/15/20	375,000	366,907	387,188
Tyson Foods, Inc.	4.500	06/15/22	500,000	513,977	524,343
Unit Corporation	6.625	05/15/21	500,000	494,813	533,750
Weatherford International Limited	4.500	04/15/22	500,000	518,226	531,628
Xerium Technologies, Inc.	8.875	06/15/18	416,000	434,105	442,000
Total Bonds				39,152,478	41,383,477
Common Stock - 0.01%					
Nortek, Inc. (B)			100	1	8,976
Total Common Stock				1	8,976
Total Corporate Public Securities				\$ 39,322,627	\$ 41,562,148
Short-Term Securities:	Interest Rate/Yield^	Due Date	Principal Amount	Cost	Market Value
Commercial Paper - 4.12%					
Ameren Corporation	0.260 %	07/01/14	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Enbridge Inc.	0.270	07/25/14	1,500,000	1,499,730	1,499,730
Marriott International, Inc.	0.290	07/25/14	1,250,000	1,249,758	1,249,758
Pentair Finance	0.270	07/03/14	1,500,000	1,499,978	1,499,978
Total Short-Term Securities				\$ 5,749,466	\$ 5,749,466
Total Investments	106.01 %			\$ 144,653,728	\$ 148,089,375
Other Assets	5.98				8,348,102
Liabilities	(11.99)				(16,745,751)

Total Net Assets 100.00 % \$ 139,691,726

- (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 June 30, 2014.
- (D) Defaulted security; interest not accrued.
- (E) Illiquid security. As of June 30, 2014, the values of these securities amounted to \$84,945,420 or 60.81% of net assets.

^ Effective yield at purchase

PIKPayment-in-kind

-

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Industry Classification:	Fair Value/ Market Value		Fair Value/ Market Value
AEROSPACE - 2.85%			
AAR Corporation	\$ 1,095,000	Lamar Media Corporation	\$ 165,600
Alliant Techsystems Inc.	1,056,250	HOP Entertainment LLC	—
B E Aerospace, Inc.	271,563	NBC Universal Media LLC	573,772
Merex Holding Corporation	660,350	Numericable Group SA	246,300
Whitcraft Holdings, Inc.	897,989	Time Warner Cable, Inc.	560,305
	3,981,152	Sundance Investco LLC	—
AUTOMOBILE - 7.46%			
Accuride Corp	526,700		1,545,977
American Axle & Manufacturing, Inc.	126,000	BUILDINGS & REAL ESTATE -	
Avis Budget Car Rental	424,688	3.38%	
CG Holdings Manufacturing Company	1,673,840	ACP Cascade Holdings LLC	—
Chrysler Group, LLC	465,413	Duke Realty Limited Partnership	508,954
DPL Holding Corporation	1,696,755	Lennar Corporation	373,125
Ideal Tridon Holdings, Inc.	192,591	Masco Corporation	411,852
		MasTec, Inc.	492,500
J A C Holding Enterprises, Inc.	437,496	Marriott International, Inc.	1,249,758
Johnson Controls, Inc.	534,893	Safway Group Holding LLC/Finance	
K & N Parent, Inc.	1,436,497	Corporation	265,000
Lear Corporation	373,125	Sunrise Windows Holding Company	1,191,348
		TruStile Doors, Inc.	228,677
Meritor, Inc.	1,075,600		4,721,214
Ontario Drive & Gear Ltd.	914,891	CHEMICAL, PLASTICS & RUBBER	
Penske Corporation	547,135	- 2.11%	
	10,425,624	Capital Specialty Plastics, Inc.	787,507
BEVERAGE, DRUG & FOOD -			
8.27%			
1492 Acquisition LLC	824,381	Cornerstone Chemical Company	396,563
B&G Foods, Inc.	441,100	Nicoat Acquisitions LLC	595,580
Eatem Holding Company	1,210,619		
JBS USA Holdings, Inc.	401,250	Omnova Solutions, Inc.	787,500
F F C Holding Corporation	228,919	Tronox Finance LLC	387,188
GenNx Novel Holding, Inc.	1,712,213		2,954,338
Golden County Foods Holding, Inc.	—	CONSUMER PRODUCTS - 9.69%	
Hospitality Mints Holding Company	1,193,182	AMS Holding LLC	230,285
JMH Investors LLC	1,156,721	Baby Jogger Holdings LLC	1,080,074
Kraft Foods, Inc.	574,749	Bravo Sports Holding Corporation	1,303,505
Snacks Parent Corporation	1,391,998	Clearwater Paper Corporation	485,000
Spartan Foods Holding Company	1,307,099	Custom Engineered Wheels, Inc.	446,301
Specialty Commodities, Inc.	583,386	gloProfessional Holdings, Inc.	1,296,668
		GTI Holding Company	849,444
		Handi Quilter Holding Company	212,583
		HHI Group, LLC	1,633,259
		K N B Holdings Corporation	80,297

Tyson Foods, Inc.	524,343	Manhattan Beachwear Holding Company	1,020,563
	11,549,960	NXP BV/NXP Funding LLC	751,875

See Notes to Consolidated Financial Statements

34

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value
Perry Ellis International, Inc.	\$ 388,125	Nortek, Inc. \$ 8,976
Prestige Brands Holdings, Inc.	663,000	O E C Holding Corporation 470,397
R A J Manufacturing Holdings LLC	478,222	Strahman Holdings Inc 1,247,103
		Truck Bodies & Equipment
R.R. Donnelley & Sons Company	505,000	International 1,239,810
Tranzonic Holdings LLC	1,671,437	11,542,796
Xerium Technologies, Inc.	442,000	DIVERSIFIED/CONGLOMERATE,
	13,537,638	SERVICE - 9.34%
CONTAINERS, PACKAGING & GLASS -		
1.84%		
P K C Holding Corporation	501,651	ADT Corporation 530,000
P P T Holdings LLC	1,174,625	A S C Group, Inc. 1,387,719
Rose City Holding Company	86,624	A W X Holdings Corporation 210,000
SMB Machinery Holdings, Inc.	716,023	Advanced Technologies Holdings 727,170
Vitex Packaging Group, Inc.	91,931	Anglogold Holdings PLC 609,340
	2,570,854	Apex Analytix Holding Corporation 639,815
DISTRIBUTION - 5.70%		Bank of America Corporation 510,266
ARI Holding Corporation	1,834,227	Church Services Holding Company 506,299
Blue Wave Products, Inc.	760,492	Clough, Harbour and Associates 223,594
BP SCI LLC	1,384,405	Crane Rental Corporation 1,164,923
Duncan Systems, Inc.	564,366	ELT Holding Company 139,073
Signature Systems Holding Company	968,598	EPM Holding Company 696,078
Stag Parkway Holding Company	1,331,434	Equipax, Inc. 508,039
WP Supply Holding Corporation	1,117,730	Hilton Worldwide Holdings, Inc. 796,875
	7,961,252	HVAC Holdings, Inc. 1,353,186
DIVERSIFIED/CONGLOMERATE,		Insurance Claims Management, Inc. 381,153
MANUFACTURING - 8.26%		Mail Communications Group, Inc. 180,856
A H C Holding Company, Inc.	228,178	Nexeo Solutions LLC 20,200
Advanced Manufacturing Enterprises		Northwest Mailing Services, Inc. 407,929
LLC	1,227,314	Safety Infrastructure Solutions 996,187
Arrow Tru-Line Holdings, Inc.	350,073	ServiceMaster Company 531,875
C D N T, Inc.	623,152	Sirius XM Radio Inc. 470,588
CTP Transportation Products, LLC	334,025	13,054,284
F G I Equity LLC	253,967	ELECTRONICS - 1.50%
G C Holdings	109,457	Belden Inc. 211,575
Hartland Controls Holding Corporation	1,800,121	Connecticut Electric, Inc. 846,828
Hi-Rel Group LLC	888,976	Jabil Circuit, Inc. 506,250
Janus Group Holdings LLC	1,754,603	Tech Data Corporation 523,868
J.B. Poindexter Co., Inc.	556,250	2,088,521
K P I Holdings, Inc.	287,175	

LPC Holding Company

163,219

See Notes to Consolidated Financial Statements

35

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
FINANCIAL SERVICES - 7.09%		U-Line Corporation	\$ 516,192
Ally Financial, Inc.	\$ 812,813	U M A Enterprises, Inc.	1,236,665
Alta Mesa Financial Services	787,500	Wellborn Forest Holding Company	—
Braskem Finance Ltd.	400,781		3,404,819
CIT Group, Inc.	1,025,300	LEISURE, AMUSEMENT, ENTERTAINMENT - 1.91%	
GATX Corporation	517,931	Brunswick Corporation	534,375
General Electric Capital Corporation	579,603	CTM Holding, Inc.	1,564,684
Icahn Enterprises L.P.	1,132,000	International Game Technology	568,375
Lazard Group LLC	523,848		2,667,434
LBC Tank Terminals Holding			
Netherlands B.V.	699,464	MACHINERY - 3.68%	
Morgan Stanley	572,283	ABC Industries, Inc.	720,566
Pentair Finance	1,499,978	Arch Global Precision LLC	1,468,236
REVSpring, Inc.	1,350,873	E S P Holdco, Inc.	244,744
	9,902,374	Motion Controls Holdings	1,066,018
HEALTHCARE, EDUCATION & CHILDCARE - 6.06%		M V I Holding, Inc.	—
American Hospice Management Holding LLC	1,175,627	NetShape Technologies, Inc.	1,200,495
CHG Alternative Education Holding Company	1,046,681	Pacific Consolidated Holdings LLC	42,188
DaVita, Inc.	534,375	Welltec A/S	399,375
			5,141,622
GD Dental Services LLC	126,127	MEDICAL DEVICES/BIOTECH - 0.57%	
ERG Holding Company LLC	1,020,003	ETEX Corporation	—
HCA Holdings, Inc.	504,375	MedSystems Holdings LLC	178,003
Healthcare Direct Holding Company	802,178	MicroGroup, Inc.	—
HealthSouth Corporation	441,956	NT Holding Company	421,785
Lifepoint Hospitals, Inc.	366,624	Precision Wire Holding Company	196,392
Qwest Diagnostic, Inc.	540,893	TherOX, Inc.	—
Strata/WLA Holding Corporation	—		796,180
		MINING, STEEL, IRON & NON-PRECIOUS METALS - 1.74%	
Synteract Holdings Corporation	1,761,929	Alcoa, Inc.	677,854
Touchstone Health Partnership	—	Coeur d'Alene Mines Corporation	502,500
Wheaton Holding Corporation	149,004		
	8,469,772	Commercial Metals Company	731,250
HOME & OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 2.44%		Peabody Energy Corporation	521,250
Connor Sport Court International, Inc.	406,849		2,432,854

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form S-3

Home D'ecor Holding Company	388,752	NATURAL RESOURCES - 0.63%	
Steelcase, Inc.	574,766	ArcelorMittal	548,750
Transpac Holding Company	281,595	Headwaters, Inc.	325,588
			874,338

See Notes to Consolidated Financial Statements

36

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value	Fair Value/ Market Value	
OIL & GAS - 11.12%		TELECOMMUNICATIONS - 2.37%	
Access Midstream Partners, L.P.	\$ 528,125	All Current Holding Company	\$ 251,763
Antero Resources Corporation	409,813	CCO Holdings Capital Corporation	1,018,750
Bill Barrett Corporation	530,000	Centurytel, Inc.	510,625
Cimarex Energy Co.	552,500	Sprint Corporation	164,300
Calumet Specialty Products Partners L.P.	537,500	Sprint Nextel Corporation	544,375
Continental Resources, Inc.	543,750	T-Mobile USA Inc.	655,157
CVR Refining LLC	369,250	Univision Communications	169,400
Enbridge Inc.	1,499,730		3,314,370
Enscoc PLC	624,449	TRANSPORTATION - 2.71%	
Forum Energy Technologies	169,600	CHC Helicopter SA	981,000
Hercules Offshore, Inc.	744,375	Hertz Corporation	233,200
Hilcorp Energy Company	690,063	MNX Holding Company	1,179,447
Hornbeck Offshore Services, Inc.	498,750	NABCO, Inc.	—
Linn Energy, LLC	540,000	Topaz Marine S.A.	538,750
MEG Energy Corporation	1,082,500	VP Holding Company	855,542
Niska Gas Storage Partners LLC	480,000		3,787,939
Petroplex Inv Holdings LLC	1,424,410	UTILITIES - 1.45%	
Precision Drilling Corporation	267,500	Ameren Corporation	1,500,000
Regency Energy Partners LP	461,656	NRG Energy, Inc.	532,500
RKI Inc.	542,500		2,032,500
		WASTE MANAGEMENT / POLLUTION - 1.06%	
Rosetta Resources Inc.	522,500	Aquilex Holdings LLC	169,695
Samson Investment Company	368,813	Terra Renewal LLC	350,860
Stone Energy Corporation	551,250		1,476,587
Tesoro Logistics LP	527,500		
Unit Corporation	533,750		
Weatherford International Limited	531,628		
	15,531,912	Total Investments - 106.01%	\$ 148,089,375
PHARMACEUTICALS - 1.04%			
CorePharma LLC	229,059		
Forest Laboratories, Inc.	951,478		
Valeant Pharmaceuticals International	265,625		
	1,446,162		
TECHNOLOGY - 0.63%			
First Data Corporation	268,438		
Sencore Holding Company	—		
Smart Source Holdings LLC	608,464		
	876,902		

See Notes to Consolidated Financial Statements

37

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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. The Trust will also invest in publicly traded debt securities (including high yield securities), 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 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 below discusses the Federal tax consequences of the PI Subsidiary Trust.

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

Babson Capital considers all relevant factors that are reasonably available, through either public information or information available to Babson Capital, when determining the fair value of a security. 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 approving valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the procedures and guidelines referred to above, which include the relevant factors referred to below. 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 \$84,945,420 (60.81% of net assets) as of June 30, 2014 whose values have been estimated by the Trustees based on the process described above 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.

Following is a description of valuation methodologies used for assets recorded at fair value.

Corporate Public Securities - Corporate Bonds, Preferred Stocks and Common Stocks

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At June 30, 2014, 100% of the carrying value of these investments was from external pricing services. In the event that the primary pricing service does not provide a price, the Trust utilizes the pricing provided by a secondary pricing service.

Public debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust's pricing services use multiple valuation techniques to determine fair value. In instances where significant market activity exists, the

accepted in the United States of America ("U.S. GAAP").

A. Fair Value Measurements:

Under U.S. GAAP, fair value represents the price that should be received to sell an asset (exit price) in an orderly transaction between willing market participants at the measurement date.

Determination of Fair Value

The determination of the fair value of the Trust's investments is the responsibility of the Trust's Board of Trustees (the "Trustees"). The Trustees have adopted procedures for the valuation of the Trust's securities and has delegated responsibility for applying those procedures to Babson Capital. Babson Capital has established a Pricing Committee which is responsible for setting the guidelines used in following the procedures adopted by the Trustees ensuring that those guidelines are being followed.

pricing services may utilize a market based approach through which quotes from market makers are used to determine fair value. In instances where significant market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal underlying prepayments, collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

The Trust's investments in bank loans are normally valued at the bid quotation obtained from dealers in loans by an independent pricing service in accordance with the Trust's valuation policies and procedures approved by the Trustees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

Public equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sales price of that day.

Annually, Babson Capital conducts reviews of the primary pricing vendors to validate that the inputs used in that vendors' pricing process are deemed to be market observable as defined in the standard. While Babson Capital is not provided access to proprietary models of the vendors, the reviews have included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. The review also includes an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process Babson Capital continues to perform annually. In addition, the pricing vendors have an established challenge process in place for all security valuations, which facilitates identification and resolution of prices that fall outside expected ranges. Babson Capital believes that the prices received from the pricing vendors are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are classified appropriately in the hierarchy.

Corporate Restricted Securities - Corporate Bonds

The fair value of certain notes is determined using an internal model that discounts the anticipated cash flows of those notes using a specific discount rate. Changes to that discount rate are driven by changes in general interest rates, probabilities of default and credit adjustments. The discount rate used within the models to discount the future anticipated cash flows is considered a significant unobservable input. Significant increases/(decreases) in the discount rate would result in a significant (decrease)/increase to the notes' fair value.

The fair value of certain distressed notes is based on an enterprise waterfall methodology which is discussed in the equity security valuation section below.

Corporate Restricted Securities - Common Stock, Preferred Stock and Partnerships & LLC's

To estimate a company's enterprise value, the company's trailing twelve months earnings before interest, taxes, depreciation and amortization ("EBITDA") is multiplied by a valuation multiple. A discount for lack of marketability is applied to the end result.

Both the company's EBITDA and valuation multiple are considered significant unobservable inputs.

Short-Term Securities

Short-term securities, of sufficient credit quality, with more than sixty days to maturity are valued at fair value, using external independent third-party services. Short-term securities having a maturity of sixty days or less are valued at amortized cost, which approximates fair value.

Quantitative Information about Level 3 Fair Value Measurements

The following table represents quantitative information about Level 3 fair value measurements as of June 30, 2014.

	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Corporate Bonds	Discounted Cash Flows	Discount Rate	7.7% to 17.0%	13.1%
Equity Securities	Market Approach	Valuation Multiple	4.3x to 13.5x	7.7x
		Discount for lack of marketability	0% to 25%	5.6%
		EBITDA	\$0.2 million to \$72.3 million	\$18.1 million

Fair Values Hierarchy

The Trust categorizes its investments measured at fair value in three levels, based on the inputs and assumptions used to determine fair value. These levels are as follows:

The fair value of equity securities is determined using an enterprise waterfall methodology. Under this methodology, the enterprise value of the company is first estimated and that value is then allocated to the company's outstanding debt and equity securities based on the documented priority of each class of securities in the capital structure. Generally, the waterfall proceeds from senior debt tranches of the capital structure to senior then junior subordinated debt, followed by each class of preferred stock and finally the common stock.

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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

The following is a summary of the inputs used to value the Trust's net assets as of June 30, 2014:

Assets	Total	Level 1	Level 2	Level 3
Restricted Securities				
Corporate Bonds	75,996,029	—	15,832,341	60,163,688
Common Stock - U.S.	11,347,745	—	—	11,347,745
Preferred Stock	5,472,007	—	—	5,472,007
Partnerships and LLCs	7,961,980	—	—	7,961,980
Public Securities				
Bank Loans	—	—	—	—
Corporate Bonds	41,383,477	—	41,383,477	—
Common Stock - U.S.	8,976	8,976	—	—
Short-term Securities	5,749,466	—	5,749,466	—
	\$	\$	\$	\$
Total	147,919,680	8,976	62,965,284	84,945,420

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

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

Assets	Beginning balance at 12/31/2013	Included in earnings	Purchases	Sales	Prepayments	Transfers in and / or out of Level 3	Ending balance at 06/30/2014
Restricted Securities							
Corporate Bonds	\$56,939,587	\$2,861,509	\$7,701,507	\$(1,928,806)	\$(5,410,109)	\$—	60,163,688
Common Stock - U.S.	9,668,741	1,918,502	717,965	(957,463)	—	—	11,347,745
Preferred Stock	6,926,282	(422,481)	(83,642)	(948,152)	—	—	5,472,007
Partnerships and LLCs	9,491,997	(276,739)	595,825	(1,849,103)	—	—	7,961,980
Public Securities							
Common Stock	—	—	—	—	—	—	—

\$83,026,607 \$4,080,791 \$8,931,655 \$(5,683,524) \$(5,410,109) \$— 84,945,420

There were no transfers into or out of Level 1 or Level 2 assets.

Income, Gains and Losses included in Net Increase in Net Assets resulting from operations for the year are presented in the following accounts on the Statement of Operation:

	Net Increase in Net Assets Resulting from Operations	Change in Unrealized Gains & (Losses) in Net Assets from assets still held
Interest (Amortization)	\$ 156,567	—
Net Realized Gain on Investments before Taxes	\$ 984,933	—
Net Change in Unrealized Depreciation of Investments Before Taxes	\$ 2,939,291	3,967,696

Babson Capital Participation Investors

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

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, disclosure of contingent assets and liabilities 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 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.

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

gains, including non-qualified income and realized gains, is subject to taxation at prevailing corporate tax rates. As of June 30, 2014, the PI Subsidiary Trust has incurred income tax expense of \$288,346.

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. As of June 30, 2014, the PI Subsidiary Trust has a deferred tax liability of \$255,833.

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 six months ended June 30, 2014.

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

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 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.

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

C. Basis for Board Renewal of Contract:

At a meeting of the Trustees held on April 16, 2014, the Trustees (including a majority of the Trustees who are not "interested persons" of the Trust or Babson Capital) unanimously approved a one-year continuance of the Contract.

Prior to the meeting, the Trustees requested and received from Ropes & Gray LLP, counsel to the Trust, a memorandum describing the Trustees' legal responsibilities in connection with their review and re-approval of the Contract. The Trustees also requested and received from Babson Capital extensive written and oral information regarding other matters including: the principal terms of the Contract; the reasons why Babson Capital was proposing the continuance of the Contract; Babson Capital and its personnel; the Trust's investment performance, including comparative performance information; the nature and quality of the services provided by Babson Capital to the Trust; financial strength of Babson Capital; the fee arrangements between Babson Capital and the Trust; fee and expense information, including comparative fee and expense information; profitability of the advisory arrangement to Babson Capital; and "fallout" benefits to Babson Capital resulting from the Contract.

Among other things, the Trustees discussed and considered with management (i) the aforementioned guidance provided by Ropes & Gray LLP and the information provided by Babson Capital prior to the meeting and (ii) the reasons Babson Capital put forth in support of its recommendation that the Trustees approve the continuance of the Contract. These considerations are summarized below.

NATURE, EXTENT AND QUALITY OF SERVICES TO BE PROVIDED BY BABSON CAPITAL TO THE TRUST

In evaluating the scope and quality of the services provided by Babson Capital to the Trust, the Trustees considered, among other factors: (i) the scope of

and legislative initiatives that have required increased legal, compliance and business attention and diligence. Based on such considerations, the Trustees concluded that, overall, they are satisfied with the nature, extent and quality of services provided by Babson Capital, and expected to be provided in the future, under the renewed Contract.

INVESTMENT PERFORMANCE

The Trustees also examined the Trust's short-term, intermediate-term, and long-term performance as compared against various benchmark indices presented at the meeting, which showed that the Trust had outperformed such indices for the 1-, 3-, 5- and 10-year periods. In addition, the Trustees considered comparisons of the Trust's performance with the performance of (i) selected closed-end investment companies and funds that may invest in private placement securities and/or bank loans; (ii) selected business development companies with comparable types of investments; and (iii) investment companies included in the Lipper closed-end bond universe. It was acknowledged that, while such comparisons are helpful in judging performance, they are not directly comparable in terms of types of investments due to the fact that business development companies often report returns based on market value, which is affected by factors other than the performance of the underlying portfolio investments. Based on these considerations and the detailed performance information provided to the Trustees at the regular Board meetings each quarter, the Trustees concluded that the Trust's absolute and relative performance over time have been sufficient to warrant renewal of the Contract.

ADVISORY FEE/COST OF SERVICES PROVIDED AND PROFITABILITY/ MANAGER'S "FALL-OUT" BENEFITS

In connection with the Trustees' consideration of the advisory fee paid by the Trust to Babson Capital under the Contract, Babson Capital noted that it was unaware of any registered closed-end investment companies that

services required to be provided by Babson Capital under the Contract; (ii) Babson Capital's ability to find and negotiate private placement securities having equity features that are consistent with the stated investment objectives of the Trust; (iii) the experience and quality of Babson Capital's staff; (iv) the strength of Babson Capital's financial condition; (v) the nature of the private placement market compared to public markets (including the fact that finding, analyzing, negotiating and servicing private placement securities is more labor-intensive than buying and selling public securities and the administration of private placement securities is more extensive, expensive, and requires greater time and expertise than a portfolio of only public securities); (vi) the potential advantages afforded to the Trust by its ability to co-invest in negotiated private placements with MassMutual and its affiliates; and (vii) the expansion of the scope of services provided by Babson Capital as a result of recent regulatory

are directly comparable to the Trust in terms of the types of investments and percentages invested in private placement securities (which require more extensive advisory and administrative services than a portfolio of publicly traded securities, as previously discussed) other than Babson Capital Corporate Investors, which also is advised by Babson Capital. Under the terms of its Investment Services Contract, Babson Capital Corporate Investors is charged a quarterly investment advisory fee of 0.3125% of net asset value as of the end of each quarter, which is approximately equal to 1.25% annually. In considering the fee rate provided in the Contract, the Trustees noted the advisory fee charged by Babson Capital to Tower Square Capital Partners, L.P. and Tower Square Capital Partners II, III and IV, L.P., each a private mezzanine fund also managed by Babson Capital, and that the fee Babson Capital Corporate Investors charged compares favorably.

Babson Capital Participation Investors

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

At the request of the Trustees, Babson Capital provided information concerning the profitability of Babson Capital's advisory relationship with the Trust. The Trustees also considered the non-economic benefits Babson Capital and its affiliates derived from its relationship with the Trust, including the reputational benefits derived from having the Trust listed on the New York Stock Exchange, and the de minimis amount of commissions resulting from the Trust's portfolio transactions used by Babson Capital for third-party soft dollar arrangements. The Trustees recognized that Babson Capital should be entitled to earn a reasonable level of profit for services provided to the Trust and, based on their review, concluded that they were satisfied that Babson Capital's historical level of profitability from its relationship with the Trust was not excessive and that the advisory fee structure under the Contract is reasonable.

ECONOMIES OF SCALE

The Trustees considered the concept of economies of scale and possible advisory fee reductions if the Trust were to grow in assets. Given that the Trust is not continuously offering shares, such growth comes principally from retained net realized gain on investments and dividend reinvestment. The Trustees also examined the breakpoint features of selected competitive funds and noted that the minimum starting point for fee reductions in those funds was at least \$200 million whereas the Trust's current net assets are near \$139 million. The Trustees concluded that the absence of breakpoints in the fee schedule under the Contract was currently acceptable given the Trust's current size and closed-end fund structure.

5. Purchases and Sales of Investments

	For the six months ended 06/30/2014	Proceeds from Sales or Maturities
	Cost of Investments Acquired	
Corporate restricted securities	\$ 12,061,083	\$ 5,989,441
Corporate public securities	5,301,422	1,591,033

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of June 30, 2014. The net unrealized appreciation of investments for financial reporting and Federal tax purposes as of June 30, 2014 is \$3,435,647 and consists of \$18,167,267 appreciation and \$14,731,620 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$255,833 on net unrealized gains on the PI Subsidiary Trust.

6. Quarterly Results of Investment Operations (Unaudited)

4. Senior Indebtedness

March 31, 2014

	Amount	Per Share
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 six months ended June 30, 2014, the Trust incurred total interest expense on the Note of \$306,750.	Investment income \$ 3,338,986 Net investment income 2,505,401 Net realized and unrealized gain on investments (net of taxes) 1,277,356	\$ 0.24 0.12
	June 30, 2014	
	Amount	Per Share
	Investment income \$ 3,100,579 Net investment income 2,438,053 Net realized and unrealized gain on investments (net of taxes) 4,441,559	\$ 0.24 0.43

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. Results of Shareholder Meeting

The Annual Meeting of Shareholders was held on Friday, April 16, 2014. The Shareholders were asked to vote to re-elect as Trustees Michael H. Brown, Barbara M. Ginader, and Maleyne M. Syracuse for three year terms. The Shareholders approved the proposal. The Trust's other Trustees, William J. Barrett, Edward P. Grace, III, Robert E. Joyal, Clifford M. Noreen, and Susan B. Sweeney continued to serve their respective terms following the April 16, 2014 Annual Shareholders Meeting. The results of the Shareholder voting are set forth below.

Shares for	Withheld	Total	% of Shares Voted for
Michael H. Brown 8,528,175	341,322	8,869,497	96.15%
Barbara M. Ginader 8,518,042	351,455	8,869,497	96.04%
Maleyne M. Syracuse 8,523,295	346,202	8,869,497	96.10%

44

This page intentionally left blank.

This page intentionally left blank.

46

Babson Capital Participation Investors

Members of the Board of Trustees

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

William J. Barrett
 Michael H. Brown*
 Barbara M. Ginader
 Edward P. Grace III
 Robert E. Joyal
 Clifford M. Noreen
 Susan B. Sweeney*
 Maleyne M. Syracuse*

Babson Capital Participation Investors (the "Trust") offers a Dividend Reinvestment and Cash Purchase Plan (the "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 promptly after the dividend payment date.

*Member of the Audit Committee

Officers

Clifford M. Noreen
 Chairman

Michael L. Klofas
 President

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.

James M. Roy
 Vice President & Chief
 Financial Officer

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.)

Christopher A. DeFrancis
 Vice President, Secretary &
 Chief Legal Officer

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.

Sean Feeley
 Vice President

Richard E. Spencer, II
 Vice President

Daniel J. Florence

Treasurer

Melissa M. LaGrant
Chief Compliance Officer

Babson Capital
Participation Investors



PI6217

ITEM 2. CODE OF ETHICS.

Not applicable for this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable for this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable for this filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable for this filing.

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.

Not applicable for this filing.

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

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 Babson Capital 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").

Richard E. Spencer, II is a Vice President of the Registrant and a Managing Director of Babson Capital who also manages Babson Capital's Fund Investments and Advisory Group. 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.

ITEM PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT
9. 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

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: September 5, 2014

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: September 5, 2014

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

Date: September 5, 2014