



09057515

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

OMB APPROVAL OMB Number: 3235-0123 Expires: February 28, 2010 Estimated average burden hours per response... 12.00

ANNUAL AUDITED REPORT FORM X-17A-5 PART III FEB 25 2009

SEC FILE NUMBER 8- 47589

FACING PAGE Washington, DC Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 1/1/08 AND ENDING 12/31/08 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Babson Capital Securities Inc.

OFFICIAL USE ONLY FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

Independence Wharf, 470 Atlantic Avenue (No. and Street)

Boston MA 02210-2208 (City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Michael Batsimm, Treasurer (617) 761-3710 (Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG, LLP

(Name - if individual, state last, first, middle name)

99 High Street Boston MA 02110-2371 (Address) (City) (State) (Zip Code)

CHECK ONE:

- [X] Certified Public Accountant [ ] Public Accountant [ ] Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

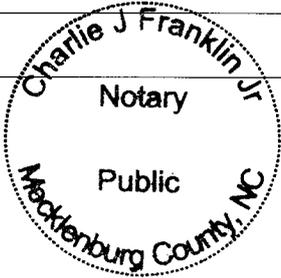
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

AS 3/2

[Handwritten signature]

OATH OR AFFIRMATION

I, Anthony Sciacca, President, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Babson Capital Securities Inc., as of December 31, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Handwritten signature of Anthony Sciacca, labeled 'Signature', with the title 'President' written below it.

Handwritten signature of Charlie J. Franklin Jr., Notary Public.

My Commission Expires March 5, 2011

This report \*\* contains (check all applicable boxes):

- Checkboxes for various report sections: (a) Facing Page, (b) Statement of Financial Condition, (c) Statement of Income (Loss), (d) Statement of Changes in Financial Condition, (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital, (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors, (g) Computation of Net Capital, (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3, (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3, (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3, (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation, (l) An Oath or Affirmation, (m) A copy of the SIPC Supplemental Report, (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

## **BABSON CAPITAL SECURITIES INC.**

### **Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1
Statement of Financial Condition	2
Statement of Operations	3
Statement of Changes in Stockholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6 – 10
Supplemental Schedules:	
I. Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities and Exchange Commission	11
II. Computation for Determination of Reserve Requirements under Rule 15c3-3 of the Securities and Exchange Commission	12
III. Information Relating to Possession or Control Requirements under Rule 15c3-3 of the Securities and Exchange Commission	13
Independent Auditors' Report on Internal Control Required by Rule 17a-5 of the Securities and Exchange Commission	14 – 15



**KPMG LLP**  
99 High Street  
Boston, MA 02110-2371

Telephone 617 988 1000  
Fax 617 507 8321  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

## **Independent Auditors' Report**

The Board of Directors  
Babson Capital Securities Inc.:

We have audited the accompanying statement of financial condition of Babson Capital Securities Inc. (the Company) as of December 31, 2008, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities and Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Babson Capital Securities Inc. as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**KPMG LLP**

Boston, Massachusetts  
February 20, 2009

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Statement of Financial Condition

December 31, 2008

<b>Assets:</b>	
Cash and cash equivalents	\$ 1,715,015
Accounts receivable	52,754
Prepaid expenses and other assets	36,981
	<u>1,804,750</u>
	<u>\$ 1,804,750</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 22,615
Income tax payable to affiliate	14,491
Deferred tax liability	15,227
	<u>52,333</u>
<b>Stockholder's equity:</b>	
Common stock, \$0.01 par value. Authorized 200,000 shares; issued and outstanding 600 shares	6
Additional paid-in capital	3,555,603
Accumulated deficit	(1,803,192)
	<u>1,752,417</u>
	<u>\$ 1,804,750</u>

See accompanying notes to financial statements.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Statement of Operations

Year ended December 31, 2008

Revenues:		
Administrative fees	\$	211,000
Investment income		41,750
		<u>252,750</u>
Expenses:		
Expenses allocated from parent		301,170
Investment services		39,498
Other expenses		31,630
Professional fees		22,365
Office expenses		1,912
		<u>396,575</u>
Loss before income tax benefit		(143,825)
Income tax benefit		<u>44,401</u>
Net loss	\$	<u><u>(99,424)</u></u>

See accompanying notes to financial statements.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Statement of Changes in Stockholder's Equity

Year ended December 31, 2008

	<b>Common stock</b>		<b>Additional paid-in capital</b>	<b>Accumulated deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
Balance, December 31, 2007	600	\$ 6	3,254,433	(1,615,853)	1,638,586
Contributed capital	—	—	301,170	—	301,170
Distribution of capital	—	—	—	(87,915)	(87,915)
Net loss	—	—	—	(99,424)	(99,424)
Balance, December 31, 2008	<u>600</u>	<u>\$ 6</u>	<u>3,555,603</u>	<u>(1,803,192)</u>	<u>1,752,417</u>

See accompanying notes to financial statements.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Statement of Cash Flows  
Year ended December 31, 2008

Cash flows from operating activities:	
Net loss	\$ (99,424)
Expenses reimbursed by Babson Capital Management LLC through a capital contribution	301,170
Adjustment to reconcile net loss to net cash provided by operating activities – change in:	
Accounts receivable	485,371
Income tax payable to affiliate	(136,018)
Prepaid expenses and other assets	4,033
Accounts payable and accrued expenses	1,231
Deferred tax liability	<u>(1,036)</u>
Net cash provided by operating activities	555,327
Cash flows from financing activities:	
Dividend to Babson Capital Management LLC	<u>(87,915)</u>
Net cash used in financing activities	(87,915)
Cash and cash equivalents, beginning of year	<u>1,247,603</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,715,015</u></u>
Supplemental disclosure of cash flow information:	
Cash received under tax allocation agreement	\$ 92,654
Supplemental disclosures of noncash financing activities:	
Noncash capital contribution	301,170

See accompanying notes to financial statements.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Notes to Financial Statements

December 31, 2008

**(1) Operations and Organization**

Babson Capital Securities Inc. (the Company) was organized as a Massachusetts corporation on June 30, 1994. The Company is a wholly owned subsidiary of Babson Capital Management LLC (Babson Capital), an indirect subsidiary of Massachusetts Mutual Life Insurance Company (MassMutual). The Company is registered as a broker and dealer under the Securities Exchange Act of 1934.

**(2) Summary of Significant Accounting Policies**

**(a) Cash and Cash Equivalents**

Cash represents monies held in bank accounts under normal commercial terms. Investments in money market funds and securities with initial maturities of three months or less are considered to be cash equivalents. Such investments are carried at cost, which approximates fair value.

**(b) Accounts Receivable**

Management periodically reviews past-due accounts to determine collectibility and establishes a reserve on those accounts whose collection is doubtful.

**(c) Income Taxes**

The Company provides for the financial recording of income taxes on the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Income taxes due to governmental taxing authorities are based upon the Company's best estimate of its current and deferred tax liabilities. Deferred income taxes are provided for temporary differences that exist between financial reporting and tax bases of assets and liabilities. The Company has a temporary difference for prepaid expenses. The effective tax rate is different from the statutory tax rate due to permanent differences caused by items such as state taxes and non-deductible expenses.

**(d) Administrative Fees**

The Company earns administrative fees for placements of interests in investment funds, in addition to retainer fees and out-of-pocket costs incurred for such placements. The Company also earns fees for services provided to Baring Asset Management, Inc. (Barings) and Cornerstone Real Estate Advisors LLC (Cornerstone). Barings and Cornerstone are both subsidiaries of MassMutual. Administrative fees are accrued when earned.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Notes to Financial Statements

December 31, 2008

**(e) Expense Agreement**

The Company has an agreement with Babson Capital under which Babson Capital provides the Company with management, administrative facilities, and services, including the use of Babson Capital's sales personnel. As part of this agreement, Babson Capital acts as the Company's paying agent for payment of the Company's expenses. Fees for these services are based on the Company's pro rata use of Babson Capital personnel, applied to those allocable expenses incurred by Babson Capital. These expenses primarily include compensation expense, payroll taxes and benefits, occupancy, and office services.

In addition, Babson Capital reimburses the Company for its allocated expenses through a capital contribution in order to allow the Company to meet its required minimum capital amounts. Accordingly, the statement of financial condition and the related statements of operations and cash flows may not be indicative of the financial position of the Company at December 31, 2008 and its results of operations and its cash flows for the year then ended had the Company operated as an independent entity.

**(f) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

**(3) New Accounting Developments**

In September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 157, *Fair Value Measurements*, which was effective January 1, 2008. The statement applies to any other accounting pronouncements that require or permit fair value measurements where the FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not expand the use of fair value to any new circumstances. FAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. GAAP, expands disclosures about fair value measurements and provides guidance for using fair value to measure assets and liabilities. Adoption of this statement did not result in an impact to the Company's consolidated financial condition or results of operations.

**(4) Fair Value of Financial Instruments**

The Company has cash and cash equivalents as of December 31, 2008 in the amount of \$1,715,015. The carrying amount on the balance sheet at cost approximates fair value. Through the Company's valuation techniques, cash and cash equivalents are classified as Level 1 in the fair value hierarchy.

The Company's valuation techniques are based upon observable pricing inputs, such as market data from independent sources. Unobservable inputs reflect the Company's market assumptions. These inputs comprise the following fair value hierarchy:

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Notes to Financial Statements

December 31, 2008

Level 1 – Observable inputs in the form of quoted prices for identical instruments in active markets.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities, quoted in markets that are not active or other inputs that are observable or can be derived from observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using internal models, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company utilizes no unobservable inputs and all inputs are quoted in an active market for its financial instruments. The fair value of cash and cash equivalents is measured and carried on a recurring basis.

**(5) Concentration of Risk**

The Company derives substantially all of its capital from Babson Capital. In the event that Babson Capital were to cease its relationship and stop dealing with the Company, it is possible that the severe disruption in business could prevent the Company from continuing as a going concern. However, the Company's management believes that there should not be any substantial doubts about the Company's ability to continue as a going concern for a reasonable time period.

**(6) Administrative Fees**

For the year ended December 31, 2008, the Company earned administrative fees in the amount of \$211,000 for services provided to Barings and Cornerstone.

**(7) Related-Party Transactions**

In 2008, under the terms of the expense agreement, Babson Capital allocated \$301,170 of expenses to the Company for management, administrative facilities, and services, including the use of Babson Capital's sales personnel. Allocable expenses incurred by Babson Capital primarily included compensation expense, payroll taxes, and benefits. Babson Capital reimbursed the Company for its allocated expenses through a capital contribution of \$301,170.

The Company is compensated for MassMutual's use of the tax losses created by the noncash expenses allocated to the Company from, and paid for the Company by, Babson Capital. Allocated expense amounts for the year ended December 31, 2008 resulted in a tax benefit of approximately \$107,348, based on the combined federal and state effective tax rate of approximately 35.6%. This tax benefit amount is included in the income tax benefit reflected on the statement of operations for the year ended December 31, 2008.

The Company recorded a capital distribution of \$87,915 to Babson Capital for administrative fees earned for services provided to Barings and Cornerstone for the year ended December 31, 2008.

**(8) Income Taxes**

The Company is included in a consolidated U.S. Federal income tax return with MassMutual and its eligible U.S. subsidiaries. The Company also files income tax returns in various states. MassMutual and its

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Notes to Financial Statements

December 31, 2008

eligible subsidiaries and certain affiliates (the Parties), including the Company, have executed and are subject to a written tax allocation agreement (the Agreement). The Agreement sets forth the manner in which the total combined federal income tax is allocated among the Parties. The Agreement provides the Company with the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur. Further, the Agreement provides the Company with the enforceable right to utilize its net losses carried forward as an offset to future net income subject to federal income taxes.

In February 2008, the Internal Revenue Service commenced its examination of the years 2004 and 2005.

The components of income taxes included in the statement of operations for the year ended December 31, 2008 are as follows:

Income tax (benefit) expense:

Current:

Federal		\$ (46,294)
State		2,930
	Total current	(43,364)

Deferred:

Federal		(797)
State		(240)
	Total deferred	(1,037)

		\$ <u><u>(44,401)</u></u>
--	--	---------------------------

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2008 are as follows:

Deferred tax assets:

State net operating losses		\$ <u>11,200</u>
	Total deferred tax assets	11,200

Less valuation allowance		(11,200)
--------------------------	--	----------

		—
--	--	---

Deferred tax liability:

Prepaid expenses		15,227
------------------	--	--------

		15,227
--	--	--------

		\$ <u><u>(15,227)</u></u>
--	--	---------------------------

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Notes to Financial Statements

December 31, 2008

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the amount of taxes paid in prior years, scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. The Company has established valuation allowances when it is more likely than not that deferred tax assets will not be realized.

The Company had a valuation allowance of \$11,200 as of December 31, 2008. The valuation allowance is attributable to state net operating losses that management believes will not be realized prior to their expiration.

A reconciliation of the differences between income tax expense and the amount computed by applying the statutory U.S. federal tax rate to pre-tax income for the year ended December 31, 2008 is as follows:

	<u>Amount</u>	<u>Percentage</u>
Provision for federal income taxes	\$ (50,339)	0.35%
State tax, net of federal effect	5,843	(0.04)
Other	95	(0.00)
Total income tax benefit:	<u>\$ (44,401)</u>	<u>0.31%</u>

Management has determined that no reserves for uncertain tax positions are required at December 31, 2008.

**(9) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2008, the Company had net capital of \$1,628,476, which was \$1,603,476 in excess of its required net capital of \$25,000. The Company's ratio of aggregate indebtedness to net capital as of December 31, 2008 was .03 to 1.

**Exemption from Rule 15c3-3**

The Company operates pursuant to the exemption provisions of (k)(2)(i) under Rule 15c3-3 of the Securities Exchange Act of 1934.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Computation of Net Capital Pursuant to Rule 15c3-1 of the  
Securities and Exchange Commission

December 31, 2008

Capital – stockholder’s equity	\$ 1,752,417
Deductions – nonallowable assets:	
Account receivable	52,754
Prepaid expenses and other assets	36,981
Haircut on cash equivalents	<u>34,206*</u>
Net capital	\$ <u><u>1,628,476</u></u>
Aggregate indebtedness	\$ 52,333
Minimum net capital requirement of broker or dealer (the greater of 6 <sup>2</sup> / <sub>3</sub> % of aggregate indebtedness as defined or \$25,000)	<u>25,000</u>
Excess net capital	\$ <u><u>1,603,476</u></u>
Ratio of aggregate indebtedness to net capital	0.03 to 1

Reconciliation with the Company’s computation (included in Part II of Form X-17A-5 as of December 31, 2008):

    There was no material difference between the Company’s computation of net capital as included in Part II of Form X-17A-5 as of December 31, 2008 and that included herein.

\* 2% of investment in money market funds.

See accompanying independent auditors’ report.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Computation for Determination of Reserve Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2008

The Company operates pursuant to the exemptive provisions of (k)(2)(i) under Rule 15c3-3 of the Securities Exchange Act of 1934.

See accompanying independent auditors' report.

**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Information Relating to Possession or Control Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2008

The Company operates pursuant to the exemptive provisions of (k)(2)(i) under Rule 15c3-3 of the Securities Exchange Act of 1934.

See accompanying independent auditors' report.



**KPMG LLP**  
99 High Street  
Boston, MA 02110-2371

Telephone 617 988 1000  
Fax 617 507 8321  
Internet www.us.kpmg.com

**Independent Auditors' Report on Internal Control  
Required by Rule 17a-5 of the Securities and Exchange Commission**

The Board of Directors  
Babson Capital Securities Inc.:

In planning and performing our audit of the financial statements of Babson Capital Securities Inc. (the Company), as of and for the year ended December 31, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in SEC Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under SEC Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of SEC Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by SEC Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. SEC Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is



subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2008 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 20, 2009



**BABSON CAPITAL SECURITIES INC.**  
(A Wholly Owned Subsidiary of Babson Capital Management LLC)

Financial Statements and Supplemental Schedules

December 31, 2008

(With Independent Auditors' Report Thereon)