TRANSAMERICA INCOME SHARES, INC.
Form N-CSR
May 28, 2009

As filed with the SEC on May 28, 2009.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-02273

TRANSAMERICA INCOME SHARES, INC.
(Exact name of registrant as specified in charter)

570 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip code)

Dennis P. Gallagher, Esq., P.O. Box 9012, Clearwater, Florida 33758-9771
(Name and address of agent for service)

Registrant s telephone number, including area code: (727) 299-1800

Date of fiscal year end: March 31

Date of reporting period: April 1, 2008 - March 31, 2009

Item 1: Report(s) to Shareholders.

The Annual Report is attached.

TRANSAMERICA

INCOME SHARES, INC.

Annual Report

March 31, 2009

Transamerica Income Shares, Inc.

(unaudited)

MARKET ENVIRONMENT

The year ended March 31, 2009 was a very tumultuous period in the U.S. and global financial systems. Conditions in the domestic and global economies deteriorated, creating an unstable environment for bond investors.

At the heart of this global economic and credit meltdown was a worldwide phenomena of bad loans. Financial institutions were initially reluctant to lend to each other and later, as their financial conditions weakened, they grew fearful of offering basic loans to businesses and consumers. The difficulty in borrowing, along with rising unemployment and decelerating wage growth, caused consumers and businesses to reduce spending.

In response, governments around the world implemented a number of fiscal and monetary programs. For example, both the U.K. and China announced multi-billion dollar stimulus packages in an attempt to revive their economies. In the U.S., stimulative measures included over a trillion dollars in financial rescue packages; an unprecedented reduction in short-term interest rates; heavy investment in government agencies that invest in mortgages; and commercial paper and bank debt guarantee programs, among other things.

The poor market environment spawned a flight from higher-risk assets such as stocks and corporate bonds to the relative safety of U.S. government-backed securities. Increasing demand for Treasuries drove prices higher and, because they move in opposition, yields lower. For most corporate bonds, the opposite occurred; as demand decreased due to credit concerns, prices dropped. In some cases, the difference between Treasury and non-government yields (i.e., yield spreads) reached record levels.

Within the mortgage sector, yield spreads on mortgage-backed securities (MBS) issued by government agencies (e.g., Fannie Mae) widened slightly; however, the implicit government guarantee of agency MBS generally enabled them to outperform most other non-treasury asset classes. For corporate bonds, the lowest-quality bonds saw the greatest increase in yield spreads.

During the final months of the period, we saw the unprecedented amount of fiscal and monetary stimulus begin to take effect. Financial markets, specifically the credit markets, began to show signs of stabilization and even a slight recovery. Although the economy remains in a recession, these early signs are encouraging.

PERFORMANCE

For the year ended March 31, 2009, Transamerica Income Shares, Inc. returned (3.24)%.

STRATEGY REVIEW

Portfolio management responsibilities were transferred to a new team at Transamerica Investment Management, LLC as of October 1, 2008. The new team began repositioning the portfolio while maintaining the portfolio s mandate of income generation. The focus shifted from corporate issues to a diversified pool of income-generating assets, including agency MBS. Agency MBS were less volatile than other fixed-income securities because the government began to buy these securities to keep mortgage rates low.

As market conditions worsened, we reduced the portfolio s exposure to high-yield securities to less than 10% of assets and increased the exposure to Treasuries. Later, as market conditions improved, we increased the weighting of high-yield securities to 15% of assets. As yields rose to historically high levels, these securities provided a very attractive level of current income.

Looking to diversify risk while increasing return in the portfolio, we added non-dollar sovereign debt securities (e.g., United Kingdom Gilts) while using a hedge to protect against currency fluctuations. It was our belief that European countries were behind the U.S. in recovering from the recession. They began to lower interest rates later than the U.S., creating good return opportunities in these types of securities. Additionally, within the corporate allocation, we maintained an underweight position to financials, which were generally weaker than industrials and utilities.

One notable detractor from overall performance was a small allocation to commercial mortgage-backed securities (CMBS). As the outlook for CMBS worsened over the course of the year on concerns of commercial property vacancies increasing and a lack of buyers for CMBS, we selectively reduced these positions.

Brian W. Westhoff, CFA

Kirk J. Kim

Peter O. Lopez

Derek S. Brown, CFA

Greg D. Haendel, CFA

Co-Portfolio Managers

Transamerica Investment Management, LLC

UNDERSTANDING YOUR FUND S EXPENSES

(unaudited)

SHAREHOLDER EXPENSES

Fund shareholders may incur ongoing costs, including management and advisory fees, distribution and service fees, and other fund expenses.

The following example is intended to help you understand your ongoing costs (in dollars and cents) of investing in the Fund and to compare these costs with the ongoing costs of investing in other funds.

The example is based on an investment of $1,000 invested at October 1, 2008 and held for the entire period until March 31, 2009.

ACTUAL EXPENSES

The first line in the table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first line of your Fund under the heading entitled Expenses Paid During Period to estimate the expenses you paid on your account during this period. If your account is an IRA, your expenses could have included a $15 annual fee. The amount of any fee paid through your account would increase the estimate of expenses you paid during the period and decrease your ending account value.

HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES

The second line in the table provides information about hypothetical account values and hypothetical expenses based on the Fund s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in your Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges, redemption fees, brokerage commissions paid on purchases and sales of fund shares. Therefore, the second line under the Fund in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. If any of these transaction costs were included, your costs would be higher. The expenses shown in the table do not reflect any fees that may be charged to you by brokers, financial intermediaries or other financial institutions.

	Beginning Account Value	Ending Account Value	Annualized Expense Ratio	Expenses Paid During Period (a)
Actual	$ 1,000.00	$ 963.16	0.69%	$ 3.38
Hypothetical (b)	1,000.00	1,021.49	0.69	3.48

(a) Expenses are calculated using the Fund s annualized expense ratio (as disclosed in the table), multiplied by the average account value for the period, multiplied by the number of days in the period (182 days), and divided by the number of days in the year (365 days).

(b) 5% return per year before expenses.

GRAPHIC PRESENTATION OF SCHEDULE OF INVESTMENTS

By Bond Credit Quality (Moody s Ratings)

At March 31, 2009

(unaudited)

Credit Rating Definitions:

Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa Obligations rated Aa are judged to be of high quality, and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A Obligations rated A are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Ba Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B Obligations rated B are considered speculative, are subject to high credit risk, and have generally poor credit risk.

Caa Obligations rated Caa are judged to be of poor standing, are subject to very high credit risk, and have extremely poor credit quality.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

NR Not rated.

WR Withdrawn rating.

Note: *Moody s appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*

SCHEDULE OF INVESTMENTS

At March 31, 2009

(all amounts in thousands)

		Principal		Value
U.S. GOVERNMENT OBLIGATIONS (7.2%)				
U.S. Treasury Bond				
4.38%, due 02/15/2038	$	1,380	$	1,568
4.50%, due 05/15/2038		965		1,127
U.S. Treasury Note				
1.25%, due 11/30/2010		575		580
1.88%, due 02/28/2014		390		394
2.00%, due 02/28/2010		600		608
2.75%, due 02/15/2019		2,250		2,261
4.88%, due 06/30/2012		1,455		1,623
Total U.S. Government Obligations (cost $7,940)				8,161
U.S. GOVERNMENT AGENCY OBLIGATIONS (16.5%)				
Fannie Mae				
4.50%, due 07/25/2021		2,054		2,090
5.00%, due 06/25/2019 - 09/01/2037		5,001		5,184
5.50%, due 07/01/2038 - 11/01/2038		6,742		7,004
Freddie Mac				
4.25%, due 10/15/2026		1,289		1,297
5.00%, due 02/01/2036		2,907		3,005
Total U.S. Government Agency Obligations (cost $18,045)				18,580
FOREIGN GOVERNMENT OBLIGATION (3.1%)				
France Government Bond				
4.00%, due 04/25/2018	EUR	2,500		3,453
Total Foreign Government Obligation (cost $3,186)				3,453
MORTGAGE-BACKED SECURITIES (3.3%)				
American Tower Trust				
Series 2007-1A, Class C				
5.62%, due 04/15/2037 -144A	$	1,555		1,282
Crown Castle Towers LLC				
Series 2006-1A, Class C				
5.47%, due 11/15/2036 -144A		1,100		957
Small Business Administration Trust				
Series 2006-1A, Class D				
5.85%, due 11/15/2036 -144A		1,212		1,067
6.17%, due 11/15/2036 -144A		540		470
Total Mortgage-Backed Securities (cost $4,351)				3,776
CORPORATE DEBT SECURITIES (62.9%)				
<u>Auto Components (1.3%)</u>				
Johnson Controls, Inc.				
5.25%, due 01/15/2011		1,300		1,259
Tenneco, Inc.				
8.13%, due 11/15/2015		895		179
<u>Automobiles (0.9%)</u>				
Daimler Finance North America LLC				
8.00%, due 06/15/2010				