

TRANSAMERICA INCOME SHARES, INC.
Form N-CSR
May 29, 2008

As filed with the SEC on May 29, 2008.

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
(Address of principal executive offices)

33716
(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, 2007 - March 31, 2008

Item 1: Report(s) to Shareholders. The Annual Report is attached.

**TRANSAMERICA
INCOME SHARES, INC.**

Annual Report

March 31, 2008

MARKET ENVIRONMENT

For fixed-income investors, the seminal event of the twelve months ended March 31, 2008, was a credit-and-liquidity crisis of exceptional proportions. Beginning in the spring of 2007, a sharp rise in defaults for sub-prime mortgages triggered the first of more than \$150 billion (and counting) in losses for banks and others that owned large quantities of the low-quality loans or securities backed by them. As the banks continued to take write-downs, weakening their balance sheets, they turned decidedly risk-averse. By the first quarter of 2008, banks had tightened their lending standards so dramatically that the economy was in danger of experiencing a full-blown liquidity crisis.

Beginning in August 2007, the Federal Reserve Board (Fed) took increasingly numerous, sometimes unprecedented, steps to shore up confidence in the system. To counter the illiquidity and, by early 2008, provide a boost to the flagging U.S. economy, the Fed lowered the federal funds rate (by 300 basis points, to 2.25%) and discount rate (by 375 basis points, to 2.50%). It also instituted lending facilities that opened up the discount window to additional borrowers and put its weight behind the buyout of an investment bank (Bear Stearns & Co.) hobbled by sub-prime-related losses. Congress joined in the stimulus effort, passing an act that will provide consumers and businesses with \$168 billion in tax rebates and credits later in 2008.

Against this backdrop, investors repeatedly sought the relative safety of U.S. Treasury securities. Accordingly, all non-government sectors underperformed Treasuries for the full period as the yield differential between government and non-government sectors widened. The bonds of companies with near-term refinancing needs or those reliant on continued access to capital fared worst in this environment.

PERFORMANCE

For the year ended March 31, 2008, Transamerica Income Shares, Inc. returned (6.17) %.

STRATEGY REVIEW

We believe the focus on a combination of investment-grade and high-yield bonds, complemented by selective investments in asset-backed securities, was most consistent with the portfolio's income orientation. However, as the sub-prime contagion spread, we deemed it prudent to take a more defensive stance, gradually reducing the overall exposure to high-yield securities (from approximately 30% of assets to 20%) and trading securities with the lowest rating (CCC) for BB-rated bonds. In addition, we sold financial services holdings and those sensitive to consumer spending, replacing them with fundamentally sound industrial companies benefiting from strong global growth.

These precautions, though helpful, were not sufficient to insulate the portfolio from underperformance as investors increasingly sought refuge in the Treasury market. Despite this flight to quality, we chose to maintain the exposure to non-government securities. We believed (and continue to believe) that Treasury yields were falling too low given the vast amount of stimulus and liquidity being pumped into the system. In our view, a move to Treasuries, while defensive in the short run, would have violated the income mandate while exposing the portfolio to additional trading costs and undue risk if Treasury yields reverse course as we believe they will.

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Heidi Y. Hu, CFA

Portfolio Manager

Transamerica Investment Management, LLC

SCHEDULE OF INVESTMENTS

At March 31, 2008

(all amounts except share amounts in thousands)

	Principal	Value
U.S. GOVERNMENT OBLIGATIONS (13.4%)		
U.S. Treasury Bond		
5.00%, due 05/15/2037	\$ 2,710	\$ 3,031
U.S. Treasury Note		
2.00%, due 02/28/2010 ^	5,600	5,639
2.75%, due 02/28/2013	583	591
2.88%, due 01/31/2013 ^	1,000	1,019
3.50%, due 02/15/2018	313	315
4.13%, due 08/31/2012 ^	2,855	3,063
4.25%, due 11/15/2013	1,125	1,228
4.88%, due 06/30/2012	2,455	2,705
Total U.S. Government Obligations (cost \$17,057)		17,591
U.S. GOVERNMENT AGENCY OBLIGATIONS (1.5%)		
Freddie Mac, Series 2631, Class CE		
4.25%, due 10/15/2026	2,000	2,002
Total U.S. Government Agency Obligations (cost \$1,960)		2,002
MORTGAGE-BACKED SECURITIES (4.5%)		
American Tower Trust		
Series 2007-1A, Class C-144A		
5.62%, due 04/15/2037	1,305	1,141
Citigroup/Deutsche Bank Commercial Mortgage Trust		
Series 2007-CD4, Class J-144A		
5.69%, due 12/11/2049	1,550	753
SBA CMBS Trust		
Series 2006-1A, Class D-144A		
5.85%, due 11/15/2036	1,212	1,105
Wachovia Bank Commercial Mortgage Trust		
Series 2006-C28, Class H-144A		
5.97%, due 10/15/2048	1,240	806
Crown Castle Towers LLC -144A		
5.47%, due 11/15/2036	1,700	1,580
SBA CMBS Trust -144A		
6.17%, due 11/15/2036	540	494
Total Mortgage-Backed Securities (cost \$7,291)		5,879
CORPORATE DEBT SECURITIES (77.7%)		
<u>Aerospace & Defense (3.2%)</u>		
Boeing Co. (The)		
8.75%, due 08/15/2021	2,000	2,653
Embraer Overseas, Ltd.		
6.38%, due 01/24/2017	1,525	1,521
<u>Air Freight & Logistics (0.9%)</u>		
FedEx Corp.		
9.65%, due 06/15/2012	1,000	1,196
<u>Airlines (2.6%)</u>		
Continental Airlines, Inc. Series B		
6.90%, due 04/19/2022	2,000	1,670

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Delta Air Lines, Inc. -144A		
6.82%, due 08/10/2022	953	897
United Airlines, Inc.		
6.64%, due 07/02/2022	900	826
<u>Automobiles (0.1%)</u>		
General Motors Corp.		
7.13%, due 07/15/2013 ^	150	115
<u>Beverages (1.1%)</u>		
Brown-Forman Corp.		
5.20%, due 04/01/2012	1,400	1,482
<u>Building Products (0.6%)</u>		
CRH America, Inc.		
5.30%, due 10/15/2013	770	750
<u>Capital Markets (2.2%)</u>		
Ameriprise Financial, Inc.		
7.52%, due 06/01/2066 ;	1,005	952
Lazard Group		
7.13%, due 05/15/2015	1,000	973
Morgan Stanley		
6.63%, due 04/01/2018	1,025	1,025
<u>Chemicals (1.6%)</u>		
Mosaic Co. (The) -144A		
7.88%, due 12/01/2016	400	430
Nalco Co.		
7.75%, due 11/15/2011	600	607
PPG Industries, Inc.		
5.75%, due 03/15/2013	1,070	1,104
<u>Commercial Banks (3.8%)</u>		
HBOS PLC -144A		
6.66%, due 05/21/2037 ;	750	536
HSBC Capital Funding LP -144A		
10.18%, due 06/30/2030 ;	1,500	1,797
ICICI Bank, Ltd. Series A -144A		
6.63%, due 10/03/2012	1,245	1,243
Shinsei Finance Cayman, Ltd. -144A		
6.42%, due 07/20/2016 ;	700	464
ZFS Finance USA Trust II -144A		
6.45%, due 12/15/2065 ;	1,030	936
<u>Commercial Services & Supplies (0.2%)</u>		
FTI Consulting, Inc.		
7.75%, due 10/01/2016	300	311
<u>Construction Materials (1.3%)</u>		
Lafarge SA		
7.13%, due 07/15/2036	1,300	1,176
Texas Industries, Inc.		
7.25%, due 07/15/2013	500	486
<u>Consumer Finance (0.4%)</u>		
Cardtronics, Inc.		
9.25%, due 08/15/2013	525	493

The notes to financial statements are an integral part of this report.

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	Principal	Value
<u>Containers & Packaging (0.1%)</u>		
Graham Packaging Co., Inc.		
9.88%, due 10/15/2014	\$ 160	\$ 134
<u>Diversified Financial Services (6.0%)</u>		
Galaxy Entertainment Finance Co., Ltd. -144A		
9.88%, due 12/15/2012	500	496
Glencore Funding LLC -144A		
6.00%, due 04/15/2014	1,500	1,466
ILFC E-Capital Trust II -144A		
6.25%, due 12/21/2065 ;	641	573
Mizuho JGB Investment LLC -144A		
9.87%, due 06/30/2008 ;	2,800	2,812
Pemex Finance, Ltd.		
9.03%, due 02/15/2011	2,340	2,474
<u>Electric Utilities (3.1%)</u>		
Dominion Resources, Inc.		
5.69%, due 05/15/2008	1,900	1,904
Sempra Energy		
7.95%, due 03/01/2010	1,400	1,504
Southern California Edison Co.		
5.95%, due 02/01/2038	630	631
<u>Energy Equipment & Services (1.3%)</u>		
Ocean RIG Norway As -144A		
8.38%, due 07/01/2013	650	715
Weatherford International, Ltd.		
5.15%, due 03/15/2013	1,000	1,001
<u>Food & Staples Retailing (0.9%)</u>		
Stater Brothers Holdings, Inc.		
8.13%, due 06/15/2012	1,200	1,203
<u>Food Products (3.0%)</u>		
ConAgra Foods, Inc.		
9.75%, due 03/01/2021	235	319
General Mills, Inc.		
5.20%, due 03/17/2015	1,000	1,003
Kellogg Co.		
4.25%, due 03/06/2013	1,105	1,102
Michael Foods, Inc.		
8.00%, due 11/15/2013	1,500	1,462
<u>Gas Utilities (1.6%)</u>		
Intergas Finance BV -144A		
6.38%, due 05/14/2017	260	227
Southern Union Co.		
6.15%, due 08/16/2008	1,800	1,811
<u>Health Care Equipment & Supplies (0.1%)</u>		
Bausch & Lomb, Inc. -144A		
9.88%, due 11/01/2015 ^	100	102
<u>Hotels, Restaurants & Leisure (4.3%)</u>		
Harrah s Operating Co., Inc.		
5.50%, due 07/01/2010	600	525
Las Vegas Sands Corp.		
6.38%, due 02/15/2015	800	706
Royal Caribbean Cruises, Ltd.		
8.75%, due 02/02/2011	940	968
Starbucks Corp.		
6.25%, due 08/15/2017	1,235	1,288
Starwood Hotels & Resorts Worldwide		
7.88%, due 05/01/2012	1,500	1,566

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Wyndham Worldwide Corp. 6.00%, due 12/01/2016	675	617
<u>Independent Power Producers & Energy Traders (2.8%)</u>		
AES Corp. (The) 8.00%, due 10/15/2017	650	658
AES Gener SA 7.50%, due 03/25/2014	1,500	1,594
Empresa Nacional de Electricidad SA/Chile Class B 8.50%, due 04/01/2009	1,300	1,359
<u>Industrial Conglomerates (0.5%)</u>		
Susser Holdings LLC 10.63%, due 12/15/2013	704	723
<u>Insurance (1.9%)</u>		
Oil Insurance, Ltd. -144A 7.56%, due 06/30/2011	1,500	1,308
Reinsurance Group of America, Inc. 6.75%, due 12/15/2065	1,400	1,228
<u>IT Services (0.7%)</u>		
ACE Cash Express, Inc. -144A 10.25%, due 10/01/2014	250	203
Aramark Corp. 8.50%, due 02/01/2015	700	702
<u>Machinery (3.0%)</u>		
Cummins, Inc. 5.65%, due 03/01/2098	2,000	1,549
Polypore, Inc. 8.75%, due 05/15/2012	450	432
Titan International, Inc. 8.00%, due 01/15/2012	600	588
Tyco Electronics Group SA -144A 6.55%, due 10/01/2017	1,334	1,398
<u>Media (8.6%)</u>		
AMFM, Inc. 8.00%, due 11/01/2008	1,415	1,460
Echostar DBS Corp. 7.13%, due 02/01/2016	250	233
Historic TW, Inc. 9.13%, due 01/15/2013	3,500	3,923
McGraw-Hill Cos., Inc. (The) 5.38%, due 11/15/2012	1,095	1,118
News America Holdings, Inc. 9.25%, due 02/01/2013	2,985	3,464
Omnicom Group, Inc. 5.90%, due 04/15/2016	1,035	1,028

The notes to financial statements are an integral part of this report.

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	Principal	Value
<u>Metals & Mining (1.3%)</u>		
Freeport-McMoRan Copper & Gold, Inc.		
8.38%, due 04/01/2017	\$ 125	\$ 133
PNA Group, Inc.		
10.75%, due 09/01/2016	375	326
Vale Overseas, Ltd.		
6.25%, due 01/23/2017	1,250	1,245
<u>Multiline Retail (1.0%)</u>		
Neiman-Marcus Group, Inc.		
9.00%, due 10/15/2015	1,275	1,275
<u>Oil, Gas & Consumable Fuels (8.7%)</u>		
Burlington Resources, Inc.		
9.88%, due 06/15/2010	480	545
Chesapeake Energy Corp.		
6.88%, due 01/15/2016	1,500	1,485
Dynegy Holdings, Inc.		
7.75%, due 06/01/2019	750	701
Enterprise Products Operating, LP		
8.38%, due 08/01/2066 ;	600	584
Gazprom International SA -144A		
7.20%, due 02/01/2020	514	524
Kinder Morgan Energy Partners, LP		
7.75%, due 03/15/2032	1,500	1,597
Markwest Energy Finance Corp.		
8.50%, due 07/15/2016	200	202
OPTI Canada, Inc.		
8.25%, due 12/15/2014	1,000	990
Petrobras International Finance Co.		
5.88%, due 03/01/2018	1,300	1,251
PetroHawk Energy Corp.		
9.13%, due 07/15/2013	1,000	1,028
Petroleum Development Corp. -144A		
12.00%, due 02/15/2018	400	400
Sabine Pass LNG, LP		
7.50%, due 11/30/2016	850	820
Teppco Partners, LP		
7.00%, due 06/01/2067 ;	1,500	1,285
<u>Paper & Forest Products (1.7%)</u>		
Celulosa Arauco y Constitucion SA		
8.63%, due 08/15/2010	2,000	2,221
<u>Real Estate Investment Trusts (3.6%)</u>		
Healthcare Realty Trust, Inc.		
8.13%, due 05/01/2011	1,350	1,444
Hospitality Properties Trust		
6.30%, due 06/15/2016	1,968	1,743
Host Hotels & Resorts, LP		
7.13%, due 11/01/2013	1,500	1,470
<u>Road & Rail (3.4%)</u>		
CSX Corp.		
6.75%, due 03/15/2011	1,500	1,584
Hertz Corp. (The)		
10.50%, due 01/01/2016	1,000	936
Kansas City Southern de Mexico SA		
7.63%, due 12/01/2013	820	771
Norfolk Southern Corp.		
6.20%, due 04/15/2009	1,145	1,178
<u>Tobacco (0.3%)</u>		

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Alliance One International, Inc. 11.00%, due 05/15/2012	450	457
<u>Wireless Telecommunication Services (1.8%)</u>		
American Tower Corp. -144A 7.00%, due 10/15/2017	750	750
New Cingular Wireless Services, Inc. 8.13%, due 05/01/2012	1,400	1,567
Total Corporate Debt Securities (cost \$103,185)		101,732

	Shares	Value
PREFERRED STOCKS (1.2%)		
<u>Diversified Telecommunication Services (0.6%)</u>		
Centaur Funding Corp. -144A	852	803
<u>Real Estate Investment Trusts (0.6%)</u>		
Tanger Factory Outlet Centers	33,334	775
Total Preferred Stocks (cost \$1,671)		1,578
Total Securities Lending Collateral (cost \$9,348)		9,348
Total Investment Securities (cost \$140,512) #		\$ 138,130

NOTES TO SCHEDULE OF INVESTMENTS:

- [^] At March 31, 2008, all or a portion of this security is on loan (see Note 1). The value at March 31, 2008, of all securities on loan is \$9,160.
- ^j Coupon rate is fixed for a predetermined period of time and then converts to a floating rate until maturity/call date. Rate is listed as of March 31, 2008.
The security has a perpetual maturity. The date shown is the next call date.
- [#] Aggregate cost for federal income tax purposes is \$141,700. Aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value were \$2,495 and \$6,065, respectively. Net unrealized depreciation for tax purposes is \$3,570.

DEFINITIONS:

- 144A 144A Securities are registered pursuant to Rule 144A of the Securities Act of 1933. These securities are deemed to be liquid for purposes of compliance limitations on holdings of illiquid securities and may be resold as transactions exempt from registration, normally to qualified institutional buyers. At March 31, 2008, these securities aggregated \$23,959 or 18.29% of the Transamerica Income Shares, Inc. s (the Fund) net assets.

The notes to financial statements are an integral part of this report.

GRAPHIC PRESENTATION OF PORTFOLIO HOLDINGS

(unaudited)

Credit Rating Description

- Aaa Prime grade obligations. Exceptional financial security and ability to meet senior financial obligations.
- Aa3 High grade obligations. Strong capacity to pay interest and repay principal.
- A1 Upper medium grade obligations. Superior ability for repayments of senior short-term debt obligations.
- A2 Upper medium grade obligations. Strong ability for repayments of senior short-term debt obligations.
- A3 Upper medium grade obligations. Acceptable ability for repayments of senior short-term debt obligations.
- B1 Moderate vulnerability to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
- B2 More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
- B3 Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
- Ba1 Moderate vulnerability in the near-term but faces major ongoing uncertainties in the event of adverse business, financial and economic conditions.
- Ba2 Vulnerable in the near-term but faces major ongoing uncertainties in the event of adverse business, financial and economic conditions.

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- Ba3 More vulnerable in the near-term but faces major ongoing uncertainties in the event of adverse business, financial and economic conditions.
- Baa1 Medium grade obligations. Interest payments and principal security are adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over great length of time.
- Baa2 Medium grade obligations. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over great length of time.
- Baa3 Medium grade obligations. Interest payments and principal security are not as adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over great length of time.
- Caa1 Highly vulnerable. May be in default on their policyholder obligations or there may be present elements of danger with respect to payment of policyholder obligations and claims.

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, 2007 and held for the entire period until March 31, 2008.

ACTUAL EXPENSES

The first line in the table below 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 below 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.

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	Beginning Account Value	Ending Account Value	Annualized Expense Ratio	Expenses Paid During Period (a)
Actual	\$ 1,000.00	\$ 966.42	0.77%	\$ 3.81
Hypothetical (b)	1,000.00	1,021.13	0.77	3.91

(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 (183 days), and divided by the number of days in the year (366 days).

(b) 5% return per year before expenses.

Transamerica Income Shares, Inc.**STATEMENT OF ASSETS AND LIABILITIES****At March 31, 2008****(all amounts except per share amounts in thousands)**

Assets:	
Investment securities, at value (cost: \$140,512) (including securities loaned of \$9,160)	\$ 138,130
Cash	860
Receivables:	
Investment securities sold	2,511
Interest	2,083
Income from loaned securities	18
	143,602
Liabilities:	
Investment securities purchased	2,379
Accounts payable and accrued liabilities:	
Management and advisory fees	56
Transfer agent fees	9
Administration fees	2
Dividends to shareholders	758
Payable for collateral for securities on loan	9,348
Other	71
	12,623
Net Assets applicable to 6,319 capital shares outstanding, \$1.00 par value (authorized 20,000 shares)	\$ 130,979
Net Asset Value Per Share	\$ 20.73

Net Assets Consist of: