

TRANSAMERICA INCOME SHARES, INC.

Form N-CSR

May 24, 2011

As filed with the SEC on May 24, 2011.

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)

Registrant's Telephone Number, including Area Code: (727) 299-1800

Dennis P. Gallagher, Esq., P.O. Box 9012, Clearwater, Florida 33758-9771

(Name and Address of Agent for Service)

Date of fiscal year end: March 31

Date of reporting period: ~~April 1, 2010~~ March 31, 2011

Item 1: Report(s) to Shareholders.

The Annual Report is attached.

**TRANSAMERICA
INCOME SHARES, INC.
Annual Report
March 31, 2011**

Transamerica Income Shares, Inc.
(unaudited)

MARKET ENVIRONMENT

The 12 months ended March 31, 2011 provided a relatively stable environment for fixed income markets. The Barclays Capital U.S. Aggregate Bond Index returned 5.12%; however, it was spread tightening that drove results. Early in the period, confidence was tested over concerns about slowing global and domestic growth. This, combined with the onset of a sovereign debt crisis in Europe, sparked a migration out of risky assets. Also weighing on U.S. markets was legislative action to increase regulation of the largest banks and financial institutions. U.S. and global investors sought the relative safety of U.S. Treasuries and, to a lesser extent, Government Agency securities. As the period progressed, U.S. economic data in the aggregate and investor sentiment turned positive. Although housing and unemployment numbers continued to move sideways at relatively weak levels, consumer spending showed signs of a resurgence. As the economy gradually emerged from the recession, the announcement by the Federal Reserve Board (Fed) of a second round of quantitative easing (QE2) had a positive impact on financial markets. Against this backdrop, short-maturity Treasury yields rose less than longer-dated Treasuries, reflecting market expectations of rising inflationary pressures in the future and an improved economic outlook, which helped corporate and mortgage bond spreads to rally.

Towards the end of the period, fixed income markets responded well to positive developments for the U.S. economy, despite geo-political events, Japan's natural disasters and European sovereign stress. Ultimately, investors looked beyond these matters aided by the Fed's QE2 program, low interest rates, gradual employment gains and solid corporate profits. U.S. gross domestic product (GDP) growth has likely achieved enough momentum to become self-sustaining. U.S. interest rates rose slightly across the maturity spectrum and spreads for corporate and non-agency mortgage securities narrowed.

PERFORMANCE

For the year ended March 31, 2011, Transamerica Income Shares, Inc. returned 10.00%. By comparison its benchmark, the Barclays Capital U.S. Aggregate Bond Index, returned 5.12%.

Effective March 22, 2011, AEGON USA Investment Management, LLC became the fund's sub-adviser. Prior to that date, the fund had a different sub-adviser.

STRATEGY REVIEW

Transamerica Income Shares, Inc. entered the reporting year, with a sizable overweighting in riskier assets (i.e., convertibles and CCC-rated investments) and was short duration versus the benchmark. At the same time, a substantial rally in Treasury rates occurred. We increased the duration to be roughly on par with the index by replacing riskier assets with Treasuries during the rally. However, talk of QE2 made Treasuries less attractive. As the Fed stoked liquidity into the markets, fund management added credit risk and yield from purchases of shorter duration, less rate-sensitive (4- to 7-year exposure) high yield bonds. Government support through QE2 provided us with confidence that there would be no rise in yields for high yield bonds. Our shift to riskier assets drove fourth quarter 2010 and first quarter 2011 outperformance as credit and non-dollar securities performed well.

Brian Westhoff, CFA

Brad Beman

Jim Schaeffer

David Halfpap

Rick Perry

Co-Portfolio Managers

AEGON USA Investment Management, LLC

Transamerica Income Shares, Inc.

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, 2010 and held for the entire period until March 31, 2011.

ACTUAL EXPENSES

The information in the table under the heading **Actual Expenses** provides information about actual account values and actual expenses. You may use the information in these columns, 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 = \$8.60), then multiply the result by the number in the column titled **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 during the period can decrease your ending account value.

HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES

The information in the table under the heading **Hypothetical Expenses** 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 the fund versus 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. Therefore, the information under the heading **Hypothetical Expenses** is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if any of these transaction costs were included, your costs would have been 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. Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not a part of the advisory and administrative fees, such as fees and expenses of directors and their counsel, extraordinary expenses and interest expense.

Fund Name	Beginning Account Value	Actual Expenses		Hypothetical Expenses (B)		
		Ending Account Value	Expenses Paid During Period (A)	Ending Account Value	Expenses Paid During Period (A)	Annualized Expense Ratio
Transamerica Income Shares, Inc.	\$ 1,000.00	\$ 1,045.20	\$ 3.77	\$ 1,021.24	\$ 3.73	0.74%

(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.

SCHEDULE OF INVESTMENTS COMPOSITION**At March 31, 2011****(The following chart summarizes the Schedule of Investments of the fund by asset type)****(unaudited)**

Asset Type	% of Net Assets
Corporate Debt Securities	64.6%
Mortgage-Backed Securities	8.5
Securities Lending Collateral	6.6
Preferred Corporate Debt Securities	6.3
U.S. Government Obligations	6.0
Foreign Government Obligations	3.7
Asset-Backed Securities	3.2
Preferred Stocks	2.0
Repurchase Agreement	1.4
Municipal Government Obligations	1.4
Convertible Preferred Stock	1.1
U.S. Government Agency Obligation	0.6
Convertible Bond	0.5
Other Assets and Liabilities Net	(5.9)
Total	100.0%

Transamerica Income Shares, Inc.

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Transamerica Income Shares, Inc.
SCHEDULE OF INVESTMENTS
At March 31, 2011
(all amounts in thousands)

	Principal	Value
U.S. GOVERNMENT OBLIGATIONS - 6.0%		
U.S. Treasury Bond		
2.63%, 11/15/2020	\$ 1,190	\$ 1,110
U.S. Treasury Inflation Indexed Bond		
2.50%, 01/15/2029	923	1,046
U.S. Treasury Note		
1.25%, 10/31/2015	1,435	1,385
1.38%, 05/15/2013	1,000	1,011
2.13%, 12/31/2015 - 02/29/2016	3,345	3,344
3.50%, 05/15/2020	630	639
Total U.S. Government Obligations (cost \$8,536)		8,535
U.S. GOVERNMENT AGENCY OBLIGATION - 0.6%		
Freddie Mac, IO		
5.00%, 08/01/2035	3,980	874
Total U.S. Government Agency Obligation (cost \$989)		
FOREIGN GOVERNMENT OBLIGATIONS - 3.7%		
Canada Housing Trust No. 1		
3.15%, 06/15/2015	CAD 1,500	1,572
Republic of Chile		
5.50%, 08/05/2020	CLP 576,000	1,188
United Mexican States		
7.00%, 06/19/2014	MXN 12,000	1,024
7.50%, 06/21/2012	MXN 17,500	1,516
Total Foreign Government Obligations (cost \$4,868)		5,300
MORTGAGE-BACKED SECURITIES - 8.5%		
American General Mortgage Loan Trust		
Series 2009-1, Class A6		
5.75%, 09/25/2048 - 144A *	\$ 1,050	1,067
American Tower Trust		
Series 2007-1A, Class D		
5.96%, 04/15/2037 - 144A	1,065	1,124
BCAP LLC Trust		
Series 2009-RR10, Class 2A1		
3.07%, 08/26/2035 - 144A *	693	701
Series 2009-RR13, Class 13A3		

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5.25%, 03/26/2037 - 144A *	674	692
Series 2009-RR14, Class 1A1		
6.01%, 05/26/2037 - 144A *	816	838
Series 2009-RR3, Class 2A1		
5.53%, 05/26/2037 - 144A *	291	300
Series 2009-RR6, Class 2A1		
5.22%, 08/26/2035 - 144A *	975	938
Series 2010-RR1, Class 12A1		
5.25%, 08/26/2036 - 144A *	874	904
Jefferies & Co., Inc.		
Series 2009-R2, Class 2A		
6.13%, 12/26/2037 - 144A *	464	481
Series 2009-R7, Class 10A3		
6.00%, 12/26/2036 - 144A	353	351
Series 2009-R7, Class 12A1		
5.22%, 08/26/2036 - 144A *	420	425
Series 2009-R7, Class 16A1		
5.56%, 12/26/2036 - 144A *	127	128
Series 2009-R7, Class 1A1		
5.50%, 02/26/2036 - 144A *	711	733
Series 2009-R7, Class 4A1		
3.05%, 09/26/2034 - 144A *	709	716
Series 2009-R9, Class 1A1		
5.62%, 08/26/2046 - 144A *	650	659
JP Morgan Re-REMIC		
Series 2009-7, Class 8A1		
5.60%, 01/27/2047 - 144A *	725	743
WaMu Mortgage Pass-Through Certificates		
Series 2003-S9, Class A6		
5.25%, 10/25/2033	850	856
Wells Fargo Mortgage Backed Securities Trust		
Series 2003-G, Class A1		
4.10%, 06/25/2033 *	252	258
Series 2003-L, Class 1A2		
4.50%, 11/25/2033 *	211	215
Total Mortgage-Backed Securities (cost \$11,514)		12,129

ASSET-BACKED SECURITIES - 3.2%

America West Airlines Pass-Through Trust		
Series 2000-1, Class G		
8.06%, 07/02/2020	676	706
Continental Airlines Pass-Through Trust		
Series 1997-1, Class A		
7.46%, 04/01/2015	1,277	1,290
Gazprom OAO Via GAZ Capital SA		
8.13%, 07/31/2014 - 144A	940	1,074
UAL Pass-Through Trust		
Series 2009-1		
10.40%, 11/01/2016	1,228	1,406

Total Asset-Backed Securities (cost \$4,232)		4,476
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MUNICIPAL GOVERNMENT OBLIGATIONS - 1.4%

Rhode Island Economic Development Corp.

6.00%, 11/01/2015 §	835	820
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State of California

7.95%, 03/01/2036	1,035	1,112
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Total Municipal Government Obligations (cost \$1,871)		1,932
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PREFERRED CORPORATE DEBT SECURITIES - 6.3%**Commercial Banks - 3.1%**

PNC Financial Services Group, Inc.

8.25%, 05/21/2013 * Ž ^	1,250	1,319
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Rabobank Nederland NV

11.00%, 06/30/2019 - 144A * Ž	1,095	1,426
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Wells Fargo & Co. - Series K

7.98%, 03/15/2018 * Ž	1,440	1,578
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Diversified Financial Services - 2.1%

JPMorgan Chase Capital XXV - Series Y

6.80%, 10/01/2037	1,000	1,005
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ZFS Finance USA Trust II

6.45%, 06/15/2016 - 144A *	1,930	1,969
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Insurance - 1.1%

Reinsurance Group of America, Inc. - Series A

6.75%, 12/15/2065 *	1,640	1,602
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Total Preferred Corporate Debt Securities (cost \$8,003)		8,899
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The notes to the financial statements are an integral part of this report.

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Transamerica Income Shares, Inc.
SCHEDULE OF INVESTMENTS (continued)
At March 31, 2011
(all amounts in thousands)

		Principal	Value
CORPORATE DEBT SECURITIES - 64.6%			
Beverages - 0.8%			
Anheuser-Busch InBev Worldwide, Inc.			
9.75%, 11/17/2015	BRL	1,200	\$ 755
Beverages & More, Inc.			
9.63%, 10/01/2014 - 144A		\$ 365	383
Building Products - 0.4%			
Voto-Votorantim Overseas Trading Operations NV			
6.63%, 09/25/2019 - 144A		600	633
Capital Markets - 2.3%			
BP Capital Markets PLC			
4.74%, 03/11/2021		790	791
E*Trade Financial Corp.			
7.38%, 09/15/2013		1,100	1,104
Macquarie Group, Ltd.			
6.25%, 01/14/2021 - 144A		1,385	1,400
Commercial Banks - 5.7%			
Barclays Bank PLC			
10.18%, 06/12/2021 - 144A		1,212	1,539
BBVA Bancomer SA			
7.25%, 04/22/2020 - 144A		800	808
M&I Marshall & Ilsley Bank			
4.85%, 06/16/2015		1,600	1,666
5.00%, 01/17/2017		1,000	1,034
Regions Bank			
7.50%, 05/15/2018 ^		1,465	1,549
Zions Bancorporation			
7.75%, 09/23/2014		1,400	1,520
Commercial Services & Supplies - 1.4%			
KAR Auction Services, Inc.			
8.75%, 05/01/2014		1,110	1,146
Steelcase, Inc.			
6.38%, 02/15/2021		800	815
Consumer Finance - 0.5%			
Block Financial LLC			
5.13%, 10/30/2014 ^		700	722
Containers & Packaging - 1.9%			
Graphic Packaging International, Inc.			
9.50%, 06/15/2017 ^		2,375	2,636
Distributors - 0.3%			
Edgen Murray Corp.			
12.25%, 01/15/2015 ^		495	486

Diversified Financial Services - 14.5%

Aviation Capital Group Corp. 7.13%, 10/15/2020 - 144A	1,500	1,564
Cemex Finance LLC 9.50%, 12/14/2016 - 144A ^	1,200	1,293
CIT Group, Inc. 7.00%, 05/01/2014 ^	925	942
Fibria Overseas Finance, Ltd. 6.75%, 03/03/2021 - 144A	755	780
Glencore Funding LLC 6.00%, 04/15/2014 - 144A	1,500	1,606
GTP Towers Issuer LLC 4.44%, 02/15/2015 - 144A	1,305	1,337
International Lease Finance Corp. 6.50%, 09/01/2014 - 144A	1,375	1,467
Irish Life & Permanent Group Holdings PLC 3.60%, 01/14/2013 - 144A	1,500	1,313
Marina District Finance Co., Inc. 9.50%, 10/15/2015 - 144A ^	1,145	1,198
9.88%, 08/15/2018 - 144A	35	37
Oaktree Capital Management, LP 6.75%, 12/02/2019 - 144A	1,110	1,155
QHP Royalty Sub LLC 10.25%, 03/15/2015 - 144A	711	725
Rio Tinto Finance USA, Ltd. 9.00%, 05/01/2019	700	920
Selkirk Cogen Funding Corp. - Series A 8.98%, 06/26/2012	540	560
Sensus USA, Inc. 8.63%, 12/15/2013 ^	300	305
Stone Street Trust 5.90%, 12/15/2015 - 144A	1,400	1,458
TNK-BP Finance SA 7.50%, 03/13/2013 - 144A	680	744
Unison Ground Lease Funding LLC 6.39%, 04/15/2020 - 144A	1,515	1,552
WCP Wireless Site Funding LLC 6.83%, 11/15/2015 - 144A	1,430	1,425
Diversified Telecommunication Services - 1.1%		
Sprint Capital Corp. 8.38%, 03/15/2012	1,300	1,372
West Corp. 7.88%, 01/15/2019 - 144A	180	183
Electric Utilities - 0.9%		
Intergen NV 9.00%, 06/30/2017 - 144A	1,225	1,320
Electrical Equipment - 1.1%		
Polypore International, Inc. 7.50%, 11/15/2017 - 144A	1,440	1,512
Electronic Equipment & Instruments - 0.8%		
Anixter, Inc.		

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5.95%, 03/01/2015	1,200	1,210
Energy Equipment & Services - 1.0%		
Enterprise Products Operating LLC - Series A		
8.38%, 08/01/2066 *	600	648
Weatherford International, Ltd.		
9.63%, 03/01/2019	545	694
Food & Staples Retailing - 1.6%		
Ingles Markets, Inc.		
8.88%, 05/15/2017	1,055	1,133
Stater Bros Holdings, Inc.		
7.38%, 11/15/2018 - 144A ^	35	36
SUPERVALU, Inc.		
7.50%, 11/15/2014 ^	1,100	1,106
Food Products - 1.6%		
Arcor		
7.25%, 11/09/2017 - 144A ^	715	754
C&S Group Enterprises LLC		
8.38%, 05/01/2017 - 144A ^	721	738
Michael Foods, Inc.		
9.75%, 07/15/2018 - 144A	720	787
Health Care Providers & Services - 0.8%		
Community Health Systems, Inc.		
8.88%, 07/15/2015	1,100	1,161

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

Transamerica Income Shares, Inc.

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Transamerica Income Shares, Inc.
SCHEDULE OF INVESTMENTS (continued)
At March 31, 2011
(all amounts except share amounts in thousands)

	Principal	Value
Hotels, Restaurants & Leisure - 1.9%		
Firekeepers Development Authority 13.88%, 05/01/2015 - 144A	\$ 625	\$ 741
MGM Resorts International 6.75%, 09/01/2012 ^	900	918
Pokagon Gaming Authority 10.38%, 06/15/2014 - 144A	1,000	1,034
Household Durables - 1.0%		
Lennar Corp. 12.25%, 06/01/2017	450	558
Sealy Mattress Co. 8.25%, 06/15/2014 ^	875	884
Insurance - 3.0%		
American Financial Group, Inc. 9.88%, 06/15/2019	920	1,125
Chubb Corp. 6.38%, 03/29/2067 *	879	925
Fidelity National Financial, Inc. 6.60%, 05/15/2017	1,495	1,547
Oil Insurance, Ltd. 7.56%, 06/30/2011 - 144A * Ž	675	640
IT		