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**Return of Private Foundation
or Section 4947(a)(1) Nonexempt Charitable Trust
Treated as a Private Foundation****2010**Department of the Treasury
Internal Revenue Service

Note. The foundation may be able to use a copy of this return to satisfy state reporting requirements

For calendar year 2010, or tax year beginning , 2010, and ending

G Check all that apply: ☐ Initial return ☐ Initial Return of a former public charity ☐ Final return
☐ Amended return ☐ Address change ☐ Name change

The Watson Foundation, Inc.
116 East Magnolia Lane
Oak Ridge, TN 37830

A Employer identification number

62-6045681

B Telephone number (see the instructions)

865/216-6720-Ce

C If exemption application is pending, check here ☐D 1 Foreign organizations, check here ☐2 Foreign organizations meeting the 85% test, check here and attach computation ☐E If private foundation status was terminated under section 507(b)(1)(A), check here ☐F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here ☐

H Check type of organization: ☒ Section 501(c)(3) exempt private foundation
☐ Section 4947(a)(1) nonexempt charitable trust ☐ Other taxable private foundation

I Fair market value of all assets at end of year
(from Part II, column (c), line 16)

\$ 561,416.

J Accounting method: ☒ Cash ☐ Accrual
☐ Other (specify) _____

(Part I, column (d) must be on cash basis.)

Part I Analysis of Revenue and Expenses

(The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a) (see the instructions).)

(a) Revenue and expenses per books

(b) Net investment income

(c) Adjusted net income

(d) Disbursements for charitable purposes (cash basis only)

REVENUE

1 Contributions, gifts, grants, etc., received (att sch)

2,000.

2 Ck ☒ if the foundn is not req to att Sch B

3 Interest on savings and temporary cash investments

7,810.

7,810.

N/A

4 Dividends and interest from securities

10,507.

10,507.

5a Gross rents
b Net rental income or (loss)

6a Net gain/(loss) from sale of assets not on line 10

708.

b Gross sales price for all assets on line 6a 10,866.

7 Capital gain net income (from Part IV, line 2)

708.

8 Net short-term capital gain

9 Income modifications

10a Gross sales less returns and allowances

b Less Cost of goods sold

c Gross profit/(loss) (att sch)

11 Other income (attach schedule)

12 Total. Add lines 1 through 11

21,025.

19,025.

13 Compensation of officers, directors, trustees, etc.

0.

14 Other employee salaries and wages

15 Pension plans, employee benefits

16a Legal fees (attach schedule)

b Accounting fees (attach sch)

c Other prof fees (attach sch) See St 1

1,500.

750.

750.

17 Interest

18 Taxes (attach schedule) (see instr) See Stm 2

2,049.

19 Depreciation (attach sch) and depletion

20 Occupancy

21 Travel, conferences, and meetings

22 Printing and publications

23 Other expenses (attach schedule)

See Statement 3

145.

125.

20.

24 Total operating and administrative expenses. Add lines 13 through 23

3,694.

875.

770.

25 Contributions, gifts, grants paid Part XV

26,500.

26,500.

26 Total expenses and disbursements. Add lines 24 and 25

30,194.

875.

27,270.

27 Subtract line 26 from line 12:

a Excess of revenue over expenses and disbursements

-9,169.

b Net investment income (if negative, enter -0-)

18,150.

c Adjusted net income (if negative, enter -0-)

SCANNED MAY 18 2010

ADMINISTRATIVE EXPENSES

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Part II Balance Sheets

Attached schedules and amounts in the description column should be for end-of-year amounts only (See instructions)

Beginning of year

End of year

(a) Book Value

(b) Book Value

(c) Fair Market Value

ASSETS

1	Cash — non-interest-bearing.	944.	6,501.	6,501.
2	Savings and temporary cash investments	4,118.	2,039.	2,039.
3	Accounts receivable			
	Less: allowance for doubtful accounts			
4	Pledges receivable			
	Less: allowance for doubtful accounts			
5	Grants receivable			
6	Receivables due from officers, directors, trustees, and other disqualified persons (attach schedule) (see the instructions)			
7	Other notes and loans receivable (attach sch)			
	Less: allowance for doubtful accounts			
8	Inventories for sale or use			
9	Prepaid expenses and deferred charges.			
10a	Investments — U.S. and state government obligations (attach schedule)			
b	Investments — corporate stock (attach schedule)	210,184.	197,537.	436,829.
c	Investments — corporate bonds (attach schedule)	88,683.	88,683.	116,047.
11	Investments — land, buildings, and equipment: basis			
	Less: accumulated depreciation (attach schedule)			
12	Investments — mortgage loans			
13	Investments — other (attach schedule)			
14	Land, buildings, and equipment: basis			
	Less: accumulated depreciation (attach schedule)			
15	Other assets (describe)			
16	Total assets (to be completed by all filers — see instructions. Also, see page 1, item I)	303,929.	294,760.	561,416.

LIABILITIES

17	Accounts payable and accrued expenses			
18	Grants payable			
19	Deferred revenue			
20	Loans from officers, directors, trustees, & other disqualified persons.			
21	Mortgages and other notes payable (attach schedule)			
22	Other liabilities (describe)			
23	Total liabilities (add lines 17 through 22)	0.	0.	

NET ASSETS OR FUND BALANCES

	Foundations that follow SFAS 117, check here and complete lines 24 through 26 and lines 30 and 31.	<input type="checkbox"/>		
24	Unrestricted			
25	Temporarily restricted			
26	Permanently restricted			
	Foundations that do not follow SFAS 117, check here and complete lines 27 through 31.	<input checked="" type="checkbox"/>		
27	Capital stock, trust principal, or current funds			
28	Paid-in or capital surplus, or land, building, and equipment fund			
29	Retained earnings, accumulated income, endowment, or other funds			
30	Total net assets or fund balances (see the instructions)		303,929.	294,760.
31	Total liabilities and net assets/fund balances (see the instructions)		303,929.	294,760.

Part III Analysis of Changes in Net Assets or Fund Balances

1	Total net assets or fund balances at beginning of year — Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)	1	303,929.
2	Enter amount from Part I, line 27a	2	-9,169.
3	Other increases not included in line 2 (itemize)	3	
4	Add lines 1, 2, and 3	4	294,760.
5	Decreases not included in line 2 (itemize)	5	
6	Total net assets or fund balances at end of year (line 4 minus line 5) — Part II, column (b), line 30	6	294,760.

Part IV Capital Gains and Losses for Tax on Investment Income

(a) List and describe the kind(s) of property sold (e.g., real estate, 2-story brick warehouse; or common stock, 200 shares MLC Company)		(b) How acquired P — Purchase D — Donation	(c) Date acquired (month, day, year)	(d) Date sold (month, day, year)
1a 100 Shares I Shares Barclays TIPS Bond ETF		P	5/19/09	11/29/10
b				
c				
d				
e				

(e) Gross sales price	(f) Depreciation allowed (or allowable)	(g) Cost or other basis plus expense of sale	(h) Gain or (loss) (e) plus (f) minus (g)
a 10,866.		10,158.	708.
b			
c			
d			
e			

Complete only for assets showing gain in column (h) and owned by the foundation on 12/31/69			(i) Gains (Column (h) gain minus column (k), but not less than -0-) or Losses (from column (h))
(i) Fair Market Value as of 12/31/69	(j) Adjusted basis as of 12/31/69	(k) Excess of column (i) over column (j), if any	
a			708.
b			
c			
d			
e			

2 Capital gain net income or (net capital loss).	<div> <div>If gain, also enter in Part I, line 7</div> <div>If (loss), enter -0- in Part I, line 7</div> </div>		2	708.
3 Net short-term capital gain or (loss) as defined in sections 1222(5) and (6):	<div> <div>If gain, also enter in Part I, line 8, column (c) (see the instructions). If (loss), enter -0-</div> <div>in Part I, line 8</div> </div>		3	0.

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income)

If section 4940(d)(2) applies, leave this part blank

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period?

☐ Yes☒ No

If 'Yes,' the foundation does not qualify under section 4940(e). Do not complete this part

1 Enter the appropriate amount in each column for each year; see the instructions before making any entries

(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (column (b) divided by column (c))
2009	23,790.	506,639.	0.046957
2008	33,539.	631,251.	0.053131
2007	45,191.	898,881.	0.050275
2006	46,914.	863,087.	0.054356
2005	45,407.	855,727.	0.053062

2 Total of line 1, column (d)	2	0.257781
3 Average distribution ratio for the 5-year base period — divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3	0.051556
4 Enter the net value of noncharitable-use assets for 2010 from Part X, line 5	4	521,598.
5 Multiply line 4 by line 3	5	26,892.
6 Enter 1% of net investment income (1% of Part I, line 27b)	6	182.
7 Add lines 5 and 6	7	27,074.
8 Enter qualifying distributions from Part XII, line 4	8	27,270.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions

Part VI Excise Tax Based on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948 — see the instructions)

1 a Exempt operating foundations described in section 4940(d)(2), check here <input type="checkbox"/> and enter 'N/A' on line 1. Date of ruling or determination letter: _____ (attach copy of letter if necessary — see instr.)		1	182.
b Domestic foundations that meet the section 4940(e) requirements in Part V, check here. <input checked="" type="checkbox"/> and enter 1% of Part I, line 27b			
c All other domestic foundations enter 2% of line 27b. Exempt foreign organizations enter 4% of Part I, line 12, column (b)			
2 Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)		2	0.
3 Add lines 1 and 2		3	182.
4 Subtitle A (income) tax (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)		4	0.
5 Tax based on investment income. Subtract line 4 from line 3. If zero or less, enter -0-		5	182.
6 Credits/Payments:			
a 2010 estimated tax pmts and 2009 overpayment credited to 2010	6a	500.	
b Exempt foreign organizations — tax withheld at source	6b		
c Tax paid with application for extension of time to file (Form 8868)	6c		
d Backup withholding erroneously withheld	6d		
7 Total credits and payments. Add lines 6a through 6d	7	500.	
8 Enter any penalty for underpayment of estimated tax. Check here <input type="checkbox"/> if Form 2220 is attached	8		
9 Tax due. If the total of lines 5 and 8 is more than line 7, enter amount owed	9	0.	
10 Overpayment. If line 7 is more than the total of lines 5 and 8, enter the amount overpaid	10	318.	
11 Enter the amount of line 10 to be Credited to 2011 estimated tax	11	Refunded	0.

Part VII-A Statements Regarding Activities

	Yes	No
1 a During the tax year, did the foundation attempt to influence any national, state, or local legislation or did it participate or intervene in any political campaign?		X
b Did it spend more than \$100 during the year (either directly or indirectly) for political purposes (see the instructions for definition)?		X
If the answer is 'Yes' to 1a or 1b, attach a detailed description of the activities and copies of any materials published or distributed by the foundation in connection with the activities.		
c Did the foundation file Form 1120-POL for this year?		X
d Enter the amount (if any) of tax on political expenditures (section 4955) imposed during the year: (1) On the foundation <input type="checkbox"/> \$ 0. (2) On foundation managers <input type="checkbox"/> \$ 0.		
e Enter the reimbursement (if any) paid by the foundation during the year for political expenditure tax imposed on foundation managers <input type="checkbox"/> \$ 0.		
2 Has the foundation engaged in any activities that have not previously been reported to the IRS? If 'Yes,' attach a detailed description of the activities		X
3 Has the foundation made any changes, not previously reported to the IRS, in its governing instrument, articles of incorporation, or bylaws, or other similar instruments? If 'Yes,' attach a conformed copy of the changes		X
4 a Did the foundation have unrelated business gross income of \$1,000 or more during the year?		X
b If 'Yes,' has it filed a tax return on Form 990-T for this year?		N/A
5 Was there a liquidation, termination, dissolution, or substantial contraction during the year? If 'Yes,' attach the statement required by General Instruction T		X
6 Are the requirements of section 508(e) (relating to sections 4941 through 4945) satisfied either: • By language in the governing instrument, or • By state legislation that effectively amends the governing instrument so that no mandatory directions that conflict with the state law remain in the governing instrument?	X	
7 Did the foundation have at least \$5,000 in assets at any time during the year? If 'Yes,' complete Part II, column (c), and Part XIV	X	
8 a Enter the states to which the foundation reports or with which it is registered (see the instructions) TN		
b If the answer is 'Yes' to line 7, has the foundation furnished a copy of Form 990-PF to the Attorney General (or designate) of each state as required by General Instruction G? If 'No,' attach explanation	X	
9 Is the foundation claiming status as a private operating foundation within the meaning of section 4942(j)(3) or 4942(j)(5) for calendar year 2010 or the taxable year beginning in 2010 (see instructions for Part XIV)? If 'Yes,' complete Part XIV		X
10 Did any persons become substantial contributors during the tax year? If 'Yes,' attach a schedule listing their names and addresses		X

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Part VII-A Statements Regarding Activities (Continued)

11	At any time during the year, did the foundation, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If 'Yes', attach schedule (see instructions)	11		X
12	Did the foundation acquire a direct or indirect interest in any applicable insurance contract before August 17, 2008?	12		X
13	Did the foundation comply with the public inspection requirements for its annual returns and exemption application? Website address <u>N/A</u>	13	X	
14	The books are in care of <u>Samuel A. Watson</u> Telephone no. <u>865/216-6720</u> Located at <u>See Above</u> ZIP + 4 <u></u>			
15	Section 4947(a)(1) nonexempt charitable trusts filing Form 990-PF in lieu of Form 1041 – Check here <u>N/A</u> and enter the amount of tax-exempt interest received or accrued during the year <u>15</u> <u>N/A</u>			
16	At any time during calendar year 2010, did the foundation have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for Form TD F 90-22.1 If 'Yes,' enter the name of the foreign country <u></u>	16	Yes	No
				X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required

File Form 4720 if any item is checked in the 'Yes' column, unless an exception applies.

		Yes	No
1 a During the year did the foundation (either directly or indirectly):			
(1) Engage in the sale or exchange, or leasing of property with a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(2) Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(3) Furnish goods, services, or facilities to (or accept them from) a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(4) Pay compensation to, or pay or reimburse the expenses of, a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(5) Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(6) Agree to pay money or property to a government official? (Exception. Check 'No' if the foundation agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b If any answer is 'Yes' to 1a(1)-(6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4941(d)-3 or in a current notice regarding disaster assistance (see the instructions)? Organizations relying on a current notice regarding disaster assistance check here <input type="checkbox"/>	1 b	N/A	
c Did the foundation engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2010?	1 c		X
2 Taxes on failure to distribute income (section 4942) (does not apply for years the foundation was a private operating foundation defined in section 4942(j)(3) or 4942(j)(5)).			
a At the end of tax year 2010, did the foundation have any undistributed income (lines 6d and 6e, Part XIII) for tax year(s) beginning before 2010? If 'Yes,' list the years <u>20__</u> , <u>20__</u> , <u>20__</u> , <u>20__</u>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b Are there any years listed in 2a for which the foundation is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income? (If applying section 4942(a)(2) to all years listed, answer 'No' and attach statement – see the instructions)	2 b	N/A	
c If the provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here <u>20__</u> , <u>20__</u> , <u>20__</u> , <u>20__</u>			
3 a Did the foundation hold more than a 2% direct or indirect interest in any business enterprise at any time during the year?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b If 'Yes,' did it have excess business holdings in 2010 as a result of (1) any purchase by the foundation or disqualified persons after May 26, 1969, (2) the lapse of the 5-year period (or longer period approved by the Commissioner under section 4943(c)(7)) to dispose of holdings acquired by gift or bequest, or (3) the lapse of the 10-, 15-, or 20-year first phase holding period? (Use Schedule C, Form 4720, to determine if the foundation had excess business holdings in 2010)	3 b	N/A	
4 a Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes?	4 a		X
b Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2010?	4 b		X

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Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required (continued)

5a During the year did the foundation pay or incur any amount to:

(1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))?

☐ Yes ☒ No

(2) Influence the outcome of any specific public election (see section 4955), or to carry on, directly or indirectly, any voter registration drive?

☐ Yes ☒ No

(3) Provide a grant to an individual for travel, study, or other similar purposes?

☐ Yes ☒ No

(4) Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4940(d)(2)? (see instructions)

☐ Yes ☒ No

(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals?

☐ Yes ☒ No

b If any answer is 'Yes' to 5a(1)-(5), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)?

5b N/A

Organizations relying on a current notice regarding disaster assistance check here

☐

c If the answer is 'Yes' to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant?

N/A ☐ Yes ☐ No

If 'Yes,' attach the statement required by Regulations section 53.4945-5(d).

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?

☐ Yes ☒ No

b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract?

6b X

If 'Yes' to 6b, file Form 8870

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction?

☐ Yes ☒ No

b If yes, did the foundation receive any proceeds or have any net income attributable to the transaction?

7b

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1 List all officers, directors, trustees, foundation managers and their compensation (see instructions).

(a) Name and address	(b) Title and average hours per week devoted to position	(c) Compensation (If not paid, enter -0-)	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
Forrest I. Watson 116 East Magnolia Lane Oak Ridge, TN 37830	Chairman/Dir 0	0.	0.	0.
Margery G. Watson 116 East Magnolia Lane Oak Ridge, TN 37830	Secretary/Di 0	0.	0.	0.
Samuel A. Watson 116 East Magnolia Lane Oak Ridge, TN 37830	Pres., Treas 0	0.	0.	0.

2 Compensation of five highest-paid employees (other than those included on line 1— see instructions). If none, enter 'NONE.'

(a) Name and address of each employee paid more than \$50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
None				

Total number of other employees paid over \$50,000

0

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors (continued)**3** Five highest-paid independent contractors for professional services (see instructions). If none, enter 'NONE.'

(a) Name and address of each person paid more than \$50,000	(b) Type of service	(c) Compensation
None		

Total number of others receiving over \$50,000 for professional services

0

Part IX-A Summary of Direct Charitable Activities

List the foundation's four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences convened, research papers produced, etc.

	Expenses
1 N/A	
2	
3	
4	

Part IX-B Summary of Program-Related Investments (see instructions)

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.	Amount
1 N/A	
2	
All other program-related investments See instructions.	
3	
Total. Add lines 1 through 3	0.

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Form 990-PF (2010)

Part X **Minimum Investment Return** (All domestic foundations must complete this part. Foreign foundations, see instructions.)

1	Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes	
a	Average monthly fair market value of securities	1a 518,397.
b	Average of monthly cash balances	1b 11,144.
c	Fair market value of all other assets (see instructions)	1c
d	Total (add lines 1a, b, and c)	1d 529,541.
e	Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation).	1e 0.
2	Acquisition indebtedness applicable to line 1 assets	2 0.
3	Subtract line 2 from line 1d	3 529,541.
4	Cash deemed held for charitable activities. Enter 1-1/2% of line 3 (for greater amount, see instructions)	4 7,943.
5	Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4	5 521,598.
6	Minimum investment return. Enter 5% of line 5	6 26,080.

Part XI **Distributable Amount** (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here ☐ and do not complete this part.)

1	Minimum investment return from Part X, line 6	1 26,080.
2a	Tax on investment income for 2010 from Part VI, line 5	2a 182.
b	Income tax for 2010 (This does not include the tax from Part VI)	2b
c	Add lines 2a and 2b	2c 182.
3	Distributable amount before adjustments. Subtract line 2c from line 1	3 25,898.
4	Recoveries of amounts treated as qualifying distributions	4
5	Add lines 3 and 4	5 25,898.
6	Deduction from distributable amount (see instructions)	6
7	Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1	7 25,898.

Part XII **Qualifying Distributions** (see instructions)

1	Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes	
a	Expenses, contributions, gifts, etc. — total from Part I, column (d), line 26	1a 27,270.
b	Program-related investments — total from Part IX-B	1b
2	Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	2
3	Amounts set aside for specific charitable projects that satisfy the	
a	Suitability test (prior IRS approval required)	3a
b	Cash distribution test (attach the required schedule)	3b
4	Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4	4 27,270.
5	Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b (see instructions)	5 182.
6	Adjusted qualifying distributions. Subtract line 5 from line 4	6 27,088.

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years.

Part XIII Undistributed Income (see instructions)

	(a) Corpus	(b) Years prior to 2009	(c) 2009	(d) 2010
1 Distributable amount for 2010 from Part XI, line 7				25,898.
2 Undistributed income, if any, as of the end of 2010.				
a Enter amount for 2009 only.			0.	
b Total for prior years: 20____, 20____, 20____		0.		
3 Excess distributions carryover, if any, to 2010:				
a From 2005	3,307.			
b From 2006	4,432.			
c From 2007	4,405.			
d From 2008	2,480.			
e From 2009	755.			
f Total of lines 3a through e	15,379.			
4 Qualifying distributions for 2010 from Part XII, line 4: ► \$ 27,270.				
a Applied to 2009, but not more than line 2a			0.	
b Applied to undistributed income of prior years (Election required — see instructions)		0.		
c Treated as distributions out of corpus (Election required — see instructions)	0.			
d Applied to 2010 distributable amount				25,898.
e Remaining amount distributed out of corpus	1,372.			
5 Excess distributions carryover applied to 2010 (If an amount appears in column (d), the same amount must be shown in column (a))	0.			0.
6 Enter the net total of each column as indicated below:				
a Corpus. Add lines 3f, 4c, and 4e. Subtract line 5	16,751.			
b Prior years' undistributed income Subtract line 4b from line 2b.		0.		
c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		0.		
d Subtract line 6c from line 6b Taxable amount — see instructions		0.		
e Undistributed income for 2009. Subtract line 4a from line 2a. Taxable amount — see instructions			0.	
f Undistributed income for 2010 Subtract lines 4d and 5 from line 1 This amount must be distributed in 2011				0.
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(F) or 4942(g)(3) (see instructions)	0.			
8 Excess distributions carryover from 2005 not applied on line 5 or line 7 (see instructions)	3,307.			
9 Excess distributions carryover to 2011. Subtract lines 7 and 8 from line 6a	13,444.			
10 Analysis of line 9:				
a Excess from 2006	4,432.			
b Excess from 2007	4,405.			
c Excess from 2008	2,480.			
d Excess from 2009	755.			
e Excess from 2010	1,372.			

Part XV **Supplementary Information** (continued)**3 Grants and Contributions Paid During the Year or Approved for Future Payment**

Recipient Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation status of recipient	Purpose of grant or contribution	Amount
<i>a Paid during the year</i> See Statement 4				
Total			3a	26,500.
<i>b Approved for future payment</i>				
Total			3b	

THE WATSON FOUNDATION, INC.

Account Number

24-Hour Assistance: (800) MERRILL

YOUR CMA ASSETS

December 01 2010 December 31, 2010

CASH/MONEY ACCOUNTS		Quantity	Total Cost Basis	Estimated Market Price	Estimated Market Value	Estimated Annual Income	Est. Annual Yield%
Description							
CASH		0.34	0.34		.34		
BIF MONEY FUND		2,039.00	2,039.00	1.0000	2,039.00	1	.06
TOTAL			2,039.34		2,039.34	1	.06

CORPORATE BONDS		Quantity	Adjusted/Total Cost Basis	Estimated Market Price	Estimated Market Value	Unrealized Gain/(Loss)	Estimated Accrued Interest	Estimated Current Annual Income	Current Yield%
Description	Acquired								
CROWN CORK & SEAL CO. INC. 01/375% BFG 15 2026 MOODY'S: B1 S&P: B+ CUSIP: 228255AH8	06/29/07	30,000	28,987.50	99.2500	29,775.00	787.50	98.33	2,213	7.43
KRAFT FOODS INC. GLB 0C.500% NOV 01 2031 MOODY'S: BAA2 S&P: BBB- CUSIP: 50075NAC8	07/12/07	30,000	29,027.57	111.2350	33,370.50	4,342.93	325.00	1,950	5.84
Δ JPMC CAPITAL XVIII SER R 06.950% AUG 17 2036 MOODY'S: A2 S&P: BBB+ CUSIP: 481227AA1 ORIGINAL UNIT/TOTAL COST 102,3600/30,090.00	06/18/07	30,000	30,657.88	100.3390	30,101.70	(556.18)	776.08	2,085	6.92
TOTAL		90,000	88,672.95		93,247.20	4,574.25	1,199.41	6,248	6.70

PREFERRED STOCKS		Quantity	Adjusted/Total Cost Basis	Estimated Market Price	Estimated Market Value	Unrealized Gain/(Loss)	Estimated Accrued Interest	Estimated Current Annual Income	Current Yield%
Description	Acquired								
MORGAN STANLEY CAP TR IV DEF INT TR P/D SECS. 06/250% APRIL 1 2033 MOODY'S: BAA2 S&P: BB+ CUSIP: 617462205	08/03/07	1,000	22,452.99	22.8000	22,800.00	347.01		1,563	6.85
TOTAL		1,000	22,452.99		22,800.00	347.01		1,563	6.86

PLEASE REFER TO NOTES BELOW FOR INFORMATION REGARDING CREDIT RATINGS.





THE WATSON FOUNDATION, INC.

Account Number

TOTAL MERRILL*

YOUR CMA ASSETS

December 01, 2010 December 31, 2010

EQUITIES Description	Symbol	Acquired	Quantity	Unit Cost Basis	Total Cost Basis	Estimated Market Price	Estimated Market Value	Unrealized Gain/(Loss)	Annual Income	Estimated Current Yield%
CHURCHILL DOWNS INC	CHDN	N/A	5,000	N/A	N/A	43.4000	217,000.00	N/A	2,501	1.15
KEYCORP NEW COM	KEY	N/A	5,400	N/A	N/A	8.8500	47,790.00	N/A	217	45
REGIONS FINL CORP	RF	N/A	963	N/A	N/A	7.0000	6,741.00	N/A	39	57
		N/A	3,189	N/A	N/A	7.0000	22,323.00	N/A	128	57
Subtotal			4,152				29,064.00		167	57
SPRINT NEXTEL CORP	S	N/A	1,604	N/A	N/A	4.2300	6,784.92	N/A		
		N/A	401	N/A	N/A	4.2300	1,696.23	N/A		
Subtotal			2,005				8,481.15			
TOTAL							302,335.15		2,885	95

RESEARCH RATINGS

Security	Symbol	BofAML Research	Morningstar	S&P
KEYCORP NEW COM	KEY	N/A	Hold	Buy
REGIONS FINL CORP	RF	N/A	Hold	Buy
SPRINT NEXTEL CORP	S	Neutral (C29)	Buy	Buy

PLEASE REFER TO THE BACK OF YOUR STATEMENT FOR A GUIDE TO BofAML AND THIRD PARTY RESEARCH RATINGS.

MUTUAL FUNDS/CLOSED END FUNDS/UIT

Description	Quantity	Total Cost Basis	Estimated Market Price	Estimated Market Value	Unrealized Gain/(Loss)	Total Client Investment	Cumulative Investment Return (\$)	Estimated Annual Current Income	Current Yield%
BLACKROCK CREDIT ALLOCT	2,500	50,519.00	9.1500	22,875.00	(27,644.00)	50,519	(27,644)	1,485	6.49
INCOME TRUST INC									
SYMBOL PSW Initial Purchase 01/12/07									
Fixed Income 100%									
ISHARES IBOXX \$	200	19,489.00	108.4400	21,688.00	2,199.00	19,489	2,199	1,057	4.87
INVT GRADE CORP BD FUND									
SYMBOL LQD Initial Purchase 05/19/05									
Fixed Income 100%									



THE WATSON FOUNDATION, INC.

Account Number

24-Hour Assistance: (800) MERRILL

YOUR CMA ASSETS

December 01, 2010 - December 31, 2010

MUTUAL FUNDS/CLOSED END FUNDS/UIT (continued)	Quantity	Total Cost Basis	Estimated Market Price	Estimated Market Value	Unrealized Gain/(Loss)	Total Client Investment	Cumulative Investment Return (\$)	Estimated Annual Current Income	Current Yield%
ISHARES BARCLAYS TIPS BO PROTECTED SECS FD SYMBOL: TIP Initial Purchase: 05/19/09 Fixed Income 100%	100	10,158.50	107.5200	10,752.00	593.50	10,158	593	270	2.50
ISHARES IBOX\$ HIGH YEL CORPORATE BOND FUND SYMBOL: HYG Initial Purchase: 05/19/09 Fixed Income 100%	300	22,781.42	90.2900	27,087.00	4,305.58	22,781	4,305	2,235	8.25
S&P US PFD STK INDEX FD ISHARES SYMBOL: PFF Initial Purchase: 05/19/09 Fixed Income 100%	600	18,194.46	38.8000	23,280.00	5,085.54	18,194	5,085	1,706	7.32
WISDOM TREE DIV EX FINANCIALS FUND SYMBOL: DIN Initial Purchase: 05/19/09 Equity 100%	600	19,776.00	48.0200	28,812.00	9,036.00	19,776	9,036	967	3.35
Subtotal (Fixed Income)				105,682.00					
Subtotal (Equities)				28,812.00					

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Client WATS5681

The Watson Foundation, Inc.

62-6045681

4/28/11

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Statement 1
Form 990-PF, Part I, Line 16c
Other Professional Fees

	(a) Expenses per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes
Tax return preparation	\$ 1,500.	\$ 750.		\$ 750.
Total	<u>\$ 1,500.</u>	<u>\$ 750.</u>		<u>\$ 750.</u>

Statement 2
Form 990-PF, Part I, Line 18
Taxes

	(a) Expenses per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes
Federal Taxes	\$ 2,049.			
Total	<u>\$ 2,049.</u>	<u>\$ 0.</u>		<u>\$ 0.</u>

Statement 3
Form 990-PF, Part I, Line 23
Other Expenses

	(a) Expenses per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes
Investment fees	\$ 125.	\$ 125.		
State registration fee	20.			\$ 20.
Total	<u>\$ 145.</u>	<u>\$ 125.</u>		<u>\$ 20.</u>

Statement 4
Form 990-PF, Part XV, Line 3a
Recipient Paid During the Year

Name and Address	Donee Relationship	Found- ation Status	Purpose of Grant	Amount
United Negro College Fund 8260 Willow Oaks Corporate Dr. Fairfax, Va 22031	N/A	N/A	Annual support campaign	\$ 1,000.
The Nature Conservancy 2021 21st Ave. S., Suite 400 Nashville, TN 37212	N/A	N/A	Annul Budget	1,000.

Client WATS5681

The Watson Foundation, Inc.

62-6045681

4/28/11

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Statement 4 (continued)
Form 990-PF, Part XV, Line 3a
Recipient Paid During the Year

<u>Name and Address</u>	<u>Donee Relationship</u>	<u>Found- ation Status</u>	<u>Purpose of Grant</u>	<u>Amount</u>
University of Tennessee 600 Andy Holt Tower Knoxville, TN 37996	N/A	N/A	Scholarship Funds	\$ 2,500.
Habitat for Humanity 719 Dameron Ave. Knoxville, TN 37921	N/A	N/A	Annual fund drive	1,000.
Interfaith Health Clinic 315 Gill Ave. Knoxville, TN 37917	N/A	N/A	Annual fund drive	2,000.
American Friends Sv. Committee 1501 Cherry St. Philadelphia, PA 19102	N/A	N/A	Annual Budget	1,000.
Second Harvest Food bank 922 Delaware Ave. Knoxville, TN 37921	N/A	N/A	Annual Budget	1,000.
Knox Area Rescue Ministries 418 N. Broadway Knoxville, TN 37917	N/A	N/A	Annual Budget	2,000.
Ronald McDonald's House 1705 W. Clinch Ave. Knoxville, TN 37916	N/A	N/A	Annual Budget	1,000.
The Salvation Army 409 N. Broadway Knoxville, TN 37917	N/A	N/A	Annual Budget	2,000.
American Red Cross 2025 E Street, NW Washington, DC 20006	N/A	N/A	Disaster Relief	1,000.
Food for the Poor 6401 Lyons Road Coconut Creek, FL 33073	N/A	N/A	Annual Budget	2,000.
CARE 151 Ellis St., NE Atlanta, GA 30303	N/A	N/A	Haiti Relief Fund	2,000.
Heifer International 1 World Avenue Little Rock, AR 72202	N/A	N/A	Annual Budget	1,000.
World Vision P.O. Box 9716 Federal Way, Wa 98063	N/A	N/A	Haiti Relief Fund	3,000.

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Federal Statements

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Client WATS5681

The Watson Foundation, Inc.

62-6045681

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Statement 4 (continued)
Form 990-PF, Part XV, Line 3a
Recipient Paid During the Year

<u>Name and Address</u>	<u>Donee Relationship</u>	<u>Found- ation Status</u>	<u>Purpose of Grant</u>	<u>Amount</u>
University of Tennessee 600 Andy Holt Tower Knoxville, Tn 37996	N/A	N/A	Annual fund raising	\$ 3,000.
Total				<u>\$ 26,500.</u>