VALERO ENERGY CORP/TX
Form PRE 14A
March 02, 2010

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Valero Energy Corporation

(Name of Registrant as Specified In Its Charter)

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**VALERO ENERGY CORPORATION**
**NOTICE OF 2010 ANNUAL MEETING OF STOCKHOLDERS**

The Board of Directors has determined that the 2010 Annual Meeting of Stockholders of Valero Energy Corporation will be held on Thursday, April 29, 2010, at 10:00 a.m., Central Time, at our offices located at One Valero Way, San Antonio, Texas 78249 for the following purposes:

(1) Elect three Class I directors to serve until the 2013 annual meeting of stockholders or until their respective successors are elected and have been qualified;

(2) Ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2010;

(3) Re-approve the 2005 Omnibus Stock Incentive Plan;

(4) Vote on an advisory resolution to ratify the 2009 compensation of the named executive officers listed in the proxy statement s Summary Compensation Table;

(5) Vote on a stockholder proposal entitled, Impact of Valero s Operations on Rainforest Sustainability ;

(6) Vote on a stockholder proposal entitled, Elimination of Classified Board ;

(7) Vote on a stockholder proposal entitled, Disclosure of Political Contributions/Trade Associations ;

(8) Vote on a stockholder proposal entitled, Stock Retention by Executives ; and

(9) Transact any other business properly brought before the meeting.

By order of the Board of Directors,

Jay D. Browning
*Senior Vice President-Corporate Law and Secretary*

Valero Energy Corporation
One Valero Way
San Antonio, Texas 78249
March [19], 2010

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## VALERO ENERGY CORPORATION
## PROXY STATEMENT

## ANNUAL MEETING OF STOCKHOLDERS
## GENERAL INFORMATION

***Introduction***

Our Board is soliciting proxies to be voted at the 2010 Annual Meeting of Stockholders on April 29, 2010 (the Annual Meeting ). The accompanying notice describes the time, place, and purposes of the Annual Meeting. Action may be taken at the Annual Meeting, or on any date to which the meeting may be adjourned. Unless otherwise indicated, the terms Valero, we, our, and us are used in this proxy statement to refer to Valero Energy Corporation, to one or mor of our consolidated subsidiaries, or to all of them taken as a whole. The term Board refers to the Board of Directors of Valero Energy Corporation.

We are mailing the Notice of Internet Availability of Proxy Materials ( Notice ) to stockholders on or about March [19,] 2010. On this date, you will have the ability to access all of our proxy materials on the website referenced in the Notice.

***Record Date and Shares Outstanding***

Holders of record of our common stock, $0.01 par value ( Common Stock ), at the close of business on March 1, 2010 (the record date ) are entitled to vote on the matters presented at the Annual Meeting. On the record date, 564,951,138 shares of Common Stock were issued and outstanding and entitled to one vote per share.

***Quorum***

Stockholders representing a majority of voting power, present in person, or represented by properly executed proxy, will constitute a quorum.

***Voting in Person at the Meeting***

If you attend the Annual Meeting and plan to vote in person, we will provide you with a ballot at the meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the right to vote the shares in person at the meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. As a beneficial owner, if you wish to vote at the meeting, you will need to bring to the meeting a legal proxy from the stockholder of record (*e.g.*, your broker or other nominee) authorizing you to vote the shares.

***Revocability of Proxies***

You may revoke your proxy at any time before it is voted at the Annual Meeting by (i) submitting a written revocation to Valero, (ii) returning a subsequently dated proxy to Valero, or (iii) attending the Annual Meeting, requesting that your proxy be revoked, and voting in person at the Annual Meeting. If instructions to the contrary are not provided, shares will be voted as indicated on the proxy card.

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***Broker Non-Votes***

Brokers holding shares must vote according to specific instructions they receive from the beneficial owners of Common Stock. If specific instructions are not received, in some cases brokers may vote these shares in their discretion. However, the New York Stock Exchange (the NYSE ) precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. This results in a broker non-vote on such a proposal. A broker non-vote is treated as present for purposes of determining a quorum, has the effect of a negative vote when a majority of the voting power of the issued and outstanding shares is required for approval of a particular proposal, and has no effect when a majority of the voting power of the shares present in person or by proxy and entitled to vote or a plurality or majority of the votes cast is required for approval.

The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2010 (Proposal No. 2), and the say-on-pay advisory vote on 2009 named executive officer compensation (Proposal No. 4) are matters considered routine under applicable NYSE rules. A broker or other nominee generally may vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposals No. 2 and No. 4.

The election of three Class I directors (Proposal No. 1), the re-approval of the 2005 Omnibus Stock Incentive Plan (Proposal No. 3), and the four stockholder proposals (Proposals No. 5, No. 6, No. 7, and No. 8) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore an undetermined number of broker non-votes may occur on Proposal No. 1, No. 3, and Nos. 5 8.

***Solicitation of Proxies***

Valero pays for the cost of soliciting proxies and the Annual Meeting. In addition to solicitation by mail, proxies may be solicited by personal interview, telephone, and similar means by directors, officers, or employees of Valero, none of whom will be specially compensated for such activities. Valero also intends to request that brokers, banks, and other nominees solicit proxies from their principals and will pay such brokers, banks, and other nominees certain expenses incurred by them for such activities. Valero retained Georgeson Inc., a proxy soliciting firm, to assist in the solicitation of proxies, for an estimated fee of $15,000, plus reimbursement of certain out-of-pocket expenses.

For participants in our qualified 401(k) plan ( Thrift Plan ), the proxy card will represent (in addition to any shares held individually of record by the participant) the number of shares allocated to the participant s account in the Thrift Plan. For shares held by the Thrift Plan, the proxy card will constitute an instruction to the trustee of the plan on how those shares should be voted. Shares for which instructions are not received may be voted by the trustee per the terms of the plan.

***Our 2005 and 2004 Stock Splits***

Our Common Stock split two-for-one on December 15, 2005, and on October 7, 2004. Each split was effected in the form of a Common Stock dividend. All share and per share data in this proxy statement have been adjusted to reflect the effect of these stock splits for all periods presented.

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## INFORMATION REGARDING THE BOARD OF DIRECTORS

Valero s business is managed under the direction of our Board. Our Board conducts its business through meetings of its members and its committees. Valero s Restated Certificate of Incorporation requires the Board to be divided into Class I, Class II, and Class III directors, with each class serving a staggered three-year term. During 2009, our Board held seven meetings and the standing Board committees held 24 meetings in the aggregate. No member of the Board attended less than 75% of the meetings of the Board and committees of which he or she was a member. All Board members are expected to attend the Annual Meeting. All Board members attended the 2009 annual stockholders meeting.

## INDEPENDENT DIRECTORS

The Board presently has one member from our management, William R. Klesse (Chief Executive Officer, President, and Chairman of the Board), and nine non-management directors. During 2009, 10 non-management directors served on the Board (W.E. Bill Bradford retired from the Board effective January 26, 2010). The Board determined that each of its non-management directors who served at any time during 2009 met the independence requirements of the NYSE listing standards as set forth in the NYSE Listed Company Manual. Those independent directors were W.E. Bill Bradford, Ronald K. Calgaard, Jerry D. Choate, Irl F. Engelhardt, Ruben M. Escobedo, Bob Marbut, Donald L. Nickles, Robert A. Profusek, Susan Kaufman Purcell, and Stephen M. Waters. As a member of management, William R. Klesse is not an independent director under the NYSE s listing standards.

The Board s Audit, Compensation, and Nominating/Governance Committees are composed entirely of directors who meet the independence requirements of the NYSE listing standards. Each member of the Audit Committee also meets the additional independence standards for Audit Committee members set forth in regulations of the SEC.

### *Independence Determinations*

Under the NYSE s listing standards, no director qualifies as independent unless the Board affirmatively determines that he or she has no material relationship with Valero. Based upon information requested from and provided by each director concerning their background, employment, and affiliations, including commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, the Board has determined that, other than being a director and/or stockholder of Valero, each of the independent directors named above has either no relationship with Valero, either directly or as a partner, stockholder, or officer of an organization that has a relationship with Valero, or has only immaterial relationships with Valero, and is independent under the NYSE s listing standards.

In accordance with NYSE listing standards, the Board has adopted categorical standards or guidelines to assist the Board in making its independence determinations with respect to each director. These standards are published in Article I of Valero s *Corporate Governance Guidelines* and are available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. Under the NYSE listing standards, immaterial relationships that fall within the guidelines are not required to be disclosed in this proxy statement. An immaterial relationship falls within the guidelines if it:

- is not a relationship that would preclude a determination of independence under Section 303A.02(b) of the NYSE Listed Company Manual;

- consists of charitable contributions by Valero to an organization where a director is an executive officer and does not exceed the greater of $1 million or 2% of the organization s gross revenue in any of the last three years;

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consists of charitable contributions to any organization with which a director, or any member of a director s immediate family, is affiliated as an officer, director, or trustee pursuant to a matching gift program of Valero and made on terms applicable to employees and directors; or is in amounts that do not exceed $1 million per year; and

is not required to be, and it is not otherwise, disclosed in this proxy statement.

## COMMITTEES OF THE BOARD

The Board has standing Audit, Compensation, Executive, Finance, and Nominating/Governance Committees. Each committee has a written charter. The charters are available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. The committees of the Board and the number of meetings held by each committee in 2009 are described below.

***Audit Committee***

The Audit Committee reviews and reports to the Board on various auditing and accounting matters, including the quality, objectivity, and performance of our internal and external accountants and auditors, the adequacy of our financial controls, and the reliability of financial information reported to the public. Members of the Audit Committee are Ruben M. Escobedo (Chairman), Ronald K. Calgaard, Irl F. Engelhardt, Susan Kaufman Purcell, and Stephen M. Waters. The Audit Committee met seven times in 2009. The Report of the Audit Committee for Fiscal Year 2009 appears below following the disclosures related to Proposal No. 2.

The Board has determined that Ruben M. Escobedo is an audit committee financial expert (as defined by the SEC), and that he is independent as independence for audit committee members is defined in the NYSE Listing Standards. For further information regarding Mr. Escobedo s experience, see Proposal No. 1 Election of Directors Information Concerning Nominees and Other Directors.

***Compensation Committee***

The Compensation Committee reviews and reports to the Board on matters related to compensation strategies, policies, and programs, including certain personnel policies and policy controls, management development, management succession, and benefit programs. The Compensation Committee also approves and administers our equity compensation plans and incentive bonus plan. The Compensation Committee s duties are described more fully in the Compensation Discussion and Analysis section below. The Compensation Committee has, for administrative convenience, delegated authority to Valero s Chief Executive Officer to make non-material amendments to Valero s benefit plans and to make limited grants of stock options and restricted stock to new hires who are not executive officers.

During 2009, members of the Compensation Committee were Bob Marbut (Chairman), W.E. Bill Bradford, Jerry D. Choate, and Robert A. Profusek. The Compensation Committee met six times and held one joint meeting with the Nominating/Governance Committee in 2009. Donald L. Nickles was appointed to the Compensation Committee effective January 26, 2010, upon Mr. Bradford s retirement from the Board. The Compensation Committee Report for fiscal year 2009 appears below, immediately preceding Compensation Discussion and Analysis.

***Compensation Committee Interlocks and Insider Participation***

There are no compensation committee interlocks. None of the members of the Compensation Committee listed above has served as an officer or employee of Valero or had any relationship requiring disclosure by Valero under Item 404 of the SEC s Regulation S-K, which addresses related person transactions.

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***Executive Committee***

The Executive Committee exercises the power and authority of the Board during intervals between meetings of the Board. With limited exceptions specified in Valero s bylaws and under Delaware law, actions taken by the Executive Committee do not require Board ratification. Members of the Executive Committee are William R. Klesse (Chairman), Jerry D. Choate, Irl F. Engelhardt, Ruben M. Escobedo, and Bob Marbut. The Executive Committee met once in 2009.

***Finance Committee***

The Finance Committee reviews and monitors the investment policies and performance of our Thrift Plan and pension plans, insurance and risk management policies and programs, and finance matters and policies as needed. During 2009, the members of the Finance Committee were Irl F. Engelhardt (Chairman), Ruben M. Escobedo, Bob Marbut, Donald L. Nickles, Susan Kaufman Purcell, and Stephen M. Waters. The Finance Committee met three times in 2009. Donald L. Nickles left the Finance Committee effective January 26, 2010, to join the Compensation Committee.

***Nominating/Governance Committee***

The Nominating/Governance Committee evaluates policies on the size and composition of the Board and criteria and procedures for director nominations, and considers and recommends candidates for election to the Board. The Committee also evaluates, recommends, and monitors corporate governance guidelines, policies and procedures, including our codes of business conduct and ethics. During 2009, the members of the Nominating/Governance Committee were Jerry D. Choate (Chairman), W.E. Bill Bradford, Ronald K. Calgaard, Donald L. Nickles, and Robert A. Profusek. Mr. Bradford left the Committee effective January 26, 2010, in connection with his retirement from the Board. The Committee met four times, and held one joint meeting with the Compensation Committee, in 2009.

The Nominating/Governance Committee recommended Ruben M. Escobedo, Bob Marbut, and Robert A. Profusek to the Board as nominees for election as Class I directors at the Annual Meeting. The Committee also considered and recommended the appointment of a lead director to preside at meetings of the independent directors without management (see Information Regarding the Board of Directors Lead Director and Meetings of Non-Management Directors ), and recommended assignments for the committees of the Board. The full Board approved the recommendations of the Nominating/Governance Committee and adopted resolutions approving the slate of director nominees to stand for election at the Annual Meeting, the appointment of a lead director, and assignments for the committees of the Board.

**SELECTION OF DIRECTOR NOMINEES**

The Nominating/Governance Committee solicits recommendations for potential Board candidates from a number of sources, including members of the Board, Valero s officers, individuals personally known to the members of the Board, and third-party research. In addition, the Committee will consider candidates submitted by stockholders when submitted in accordance with the procedures described in this proxy statement under the caption Miscellaneous Stockholder Nominations and Proposals. The Committee will consider all candidates identified through the processes described above and will evaluate each of them on the same basis. The level of consideration that the Committee will extend to a stockholder s candidate will be commensurate with the quality and quantity of information about the candidate that the nominating stockholder makes available to the Committee.

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***Evaluation of Director Candidates***

The Nominating/Governance Committee is responsible for assessing the skills and characteristics that candidates for election to the Board should possess, as well as the composition of the Board as a whole. The assessments include qualifications under applicable independence standards and other standards applicable to the Board and its committees, as well as consideration of skills and expertise in the context of the needs of the Board.

Each candidate must meet certain minimum qualifications, including:

- independence of thought and judgment;
- the ability to dedicate sufficient time, energy and attention to the performance of her or his duties, taking into consideration the candidate s service on other public company boards; and
- skills and expertise complementary to those of the existing Board members; in this regard, the Board will consider its need for operational, managerial, financial, governmental affairs, or other relevant expertise.

The Nominating/Governance Committee also considers diversity concepts such as race, gender, and national origin, as well as the ability of a prospective candidate to work with the then-existing interpersonal dynamics of the Board and the candidate s ability to contribute to the collaborative culture among Board members.

Based on this initial evaluation, the Committee will determine whether to interview the candidate, and if warranted, will recommend that one or more of its members, other members of the Board, or senior management, as appropriate, interview the candidate in person or by telephone. After completing this evaluation and interview process, the Committee ultimately determines its list of nominees and submits the list to the full Board for consideration and approval.

**LEADERSHIP STRUCTURE OF THE BOARD**

As prescribed by our bylaws, the Chairman of the Board has the power to preside at all meetings of the Board. William R. Klesse, our Chief Executive Officer and President, serves as the Chairman of our Board of Directors. For most of Valero s history, the same individual has served as both Chairman of the Board and Chief Executive Officer of Valero. Although the Board believes that the combination of the Chairman and Chief Executive Officer roles is appropriate in the current circumstances, Valero s *Corporate Governance Guidelines* do not establish this approach as a policy, and in fact, the Chairman and Chief Executive Officer roles were separate from 2005-2007.

The Chief Executive Officer is appointed by the Board to manage Valero s daily affairs and operations. We believe that Mr. Klesse s extensive industry experience and direct involvement in Valero s operations make him best suited to serve as Chairman in order to (i) lead the Board in productive, strategic planning, (ii) determine necessary and appropriate agenda items for meetings of the Board with input from the Lead Director and Board committee chairpersons, and (iii) determine and manage the amount of time and information devoted to discussion and analysis of agenda items and other matters that may come before the Board. Our Board structure also fosters strong oversight by independent directors. Mr. Klesse is the only member of management (past or present) who serves on the Board, and all of the other directors are fully independent. Each of the committees of the Board (except for the Executive Committee, which meets infrequently) is chaired by an independent director.

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## LEAD DIRECTOR AND MEETINGS OF NON-MANAGEMENT DIRECTORS

Our Board appoints a Lead Director, whose responsibilities include leading the meetings of the non-management members of our Board outside the presence of management. Our Board regularly meets in executive session outside the presence of management, generally at each Board meeting. Following the recommendation of the Nominating/Governance Committee, the Board designated Robert A. Profusek to serve as the Lead Director during 2010. Mr. W.E. Bill Bradford served as Lead Director during 2009. The Lead Director, working with committee chairpersons, sets the agenda and leads the discussion of regular meetings of the board outside the presence of management, provides feedback regarding these meetings to the Chairman, and otherwise serves as liaison between the independent directors and the Chairman. If necessary, the Lead Director is also responsible for receiving, reviewing, and acting upon communications from stockholders or other interested parties when those interests should be addressed by a person independent of management. The Board believes that this approach appropriately and effectively complements Valero s combined Chief Executive Officer/Chairman structure.

## RISK OVERSIGHT

The Board considers oversight of Valero s risk management efforts to be a responsibility of the entire board. The Board s role in risk oversight includes receiving regular reports from members of senior management on areas of material risk to Valero, or to the success of a particular project or endeavor under consideration, including operational, financial, legal and regulatory, strategic and reputational risks. The full Board (or the appropriate Committee, in the case of risks that are under the purview of a particular Committee) receives these reports from the appropriate members of management to enable the Board (or Committee) to understand Valero s risk identification, risk management, and risk mitigation strategies. When a report is vetted at the Committee level, the chairperson of that Committee subsequently reports on the matter to the full Board. This enables to the Board and its Committees to coordinate the Board s risk oversight role. The Board also believes that risk management is an integral part of Valero s annual strategic planning process, which addresses, among other things, the risks and opportunities facing Valero.

Part of the Audit Committee s responsibilities, as set forth in its charter, is to discuss with management Valero s major financial risk exposures and the steps management has taken to monitor and control those exposures, including Valero s risk assessment and risk management policies. In this regard, Valero s chief audit officer prepares annually a comprehensive risk assessment report and reviews that report with the Audit Committee. This report identifies the material business risks for Valero, and identifies Valero s internal controls that respond to and mitigate those risks. Valero s management regularly evaluates these controls, and the Audit Committee is provided regular updates regarding the effectiveness of the controls. Also, the Finance Committee shares responsibilities with respect to risk oversight. The Finance Committee regularly reviews with management Valero s financial arrangements, capital structure, and its access to capital markets. It also oversees allocation policies with respect to Valero s pension assets, as well as the performance of investments in Valero s pension and other benefit plans. The Audit Committee and the Finance Committee regularly report to the full Board.

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## PROPOSAL NO. 1
## ELECTION OF DIRECTORS

(Item 1 on the Proxy Card)

Our Board is divided into three classes for purposes of election. Three Class I directors will be elected at the Annual Meeting to serve a three-year term expiring at the 2013 annual meeting of stockholders. Nominees for Class I directors are Ruben M. Escobedo, Bob Marbut, and Robert A. Profusek. The persons named on the proxy card intend to vote for the election of each of these nominees unless you direct otherwise on your proxy card.

**The Board recommends that stockholders vote FOR all nominees.**

In accordance with Valero s bylaws, each director to be elected under this Proposal No. 1 shall be elected by the vote of the majority of the votes cast at the Annual Meeting if a quorum is present. For purposes of this election, a majority of the votes cast shall mean that the number of shares voted for a director s election exceeds 50 percent of the number of votes cast with respect to that director s election. With respect to each nominee, votes cast shall include votes to withhold authority and shall exclude abstentions.

If any nominee is unavailable as a candidate at the time of the Annual Meeting, either the number of directors constituting the full Board will be reduced to eliminate the resulting vacancy, or the persons named as proxies will use their best judgment in voting for any available nominee. The Board has no reason to believe that any current nominee will be unable to serve.

**INFORMATION CONCERNING NOMINEES AND OTHER DIRECTORS**

The following table describes (i) each nominee for election as a director at the Annual Meeting, and (ii) the other members of the Board whose terms expire in 2011 and 2012. The information provided is based partly on data furnished by the directors and partly on Valero s records. There is no family relationship among any of the executive officers, directors, or nominees for director of Valero.

| | *Executive Officer or Director Since (1)* | *Age as of 12/31/09* | *Director Class (2)* |
|---|---|---|---|
| ***Nominees*** | | | |
| Ruben M. Escobedo, *Director* | 1994 | 72 | I |
| Bob Marbut, *Director* | 2001 | 74 | I |
| Robert A. Profusek, *Director* | 2005 | 59 | I |
| ***Other Directors*** | | | |
| Ronald K. Calgaard, *Director* | 1996 | 72 | II |
| Irl F. Engelhardt, *Director* | 2006 | 63 | II |
| Stephen M. Waters, *Director* | 2008 | 63 | II |
| Jerry D. Choate, *Director* | 1999 | 71 | III |
| William R. Klesse, *Chairman of the Board,Chief Executive Officer, and President* | 2001 | 63 | III |
| Donald L. Nickles, *Director* | 2005 | 61 | III |
| Susan Kaufman Purcell, *Director* | 1994 | 67 | III |

Footnotes:

(1) Dates reported include service on the Board of Directors of Valero s former parent company prior to Valero s separation from that company in 1997.

(2) If elected, the terms of office of the Class I directors will expire at the 2013 Annual Meeting. The terms of office of the Class II directors will expire at the 2011 Annual Meeting, and the terms of office of the Class III directors will expire at the

2012 Annual Meeting.

***Nominees***

*Mr. Escobedo* is a Certified Public Accountant. He owned and operated his public accounting firm, Ruben Escobedo & Company, CPAs, in San Antonio, Texas since its formation in 1977 through 2007. Mr. Escobedo also serves as a director of Cullen/Frost Bankers, Inc. He has served as a director of Valero or its former parent company since 1994. Mr. Escobedo s pertinent experience, qualifications, attributes, and skills include: public accounting and financial reporting expertise (including extensive experience as a certified public accountant), managerial experience attained from serving as chief executive of his own accounting firm, the knowledge and experience he has attained from service on another public company board, and the knowledge and experience he has attained from his service on Valero s Board since 1994.

*Mr. Marbut* is a director of and is Executive Chairman of Electronics Line 3000 Ltd., a provider of wireless security with remote management solutions. He is a director of Tupperware Brands Corporation. Mr. Marbut was previously founder, a director and Chief Executive Officer of SECTecGLOBAL, Inc. from 2002 through 2006. He was also previously a director of Hearst-Argyle Television, Inc. from 1997 until 2009 and a director and Chief Executive Officer of Argyle Security, Inc. from 2005 until January 2010. He served as a director of UDS since 1990, and has served as a director of Valero since Valero s acquisition of Ultramar Diamond Shamrock Corporation ( UDS ) in 2001. Mr. Marbut s pertinent experience, qualifications, attributes, and skills include: managerial experience he has attained serving as chief executive officer and chairman of other public companies, the experience he has attained from service on other public company boards, and the knowledge and experience he has attained through his service on the UDS or Valero Board since 1990.

*Mr. Profusek* is a partner, and heads the mergers and acquisitions department, of the Jones Day law firm. His law practice focuses on mergers, acquisitions, takeovers, restructurings, and corporate governance matters, including compensation. Mr. Profusek is also a director of CTS Corporation. He has served as a director of Valero since 2005. Mr. Profusek s pertinent experience, qualifications, attributes, and skills include: legal expertise in corporate law matters, including governance and compensation; capital markets expertise attained through his extensive experience in mergers and acquisitions; managerial experience attained through his leadership roles with the Jones Day law firm; the knowledge and experience he has attained through his service on another public company board; and the knowledge and experience he has attained through his service on Valero s Board since 2005.

***Other Directors***

*Dr. Calgaard* is Chairman of the Ray Ellison Grandchildren Trust in San Antonio, Texas. He was formerly Chairman and Chief Executive Officer of Austin Calvert & Flavin Inc., a San Antonio-based investment management firm, from 2000 to February 2006. Dr. Calgaard served as President of Trinity University, San Antonio, Texas, from 1979 until his retirement in 1999. He is also a director of The Trust Company, N.A. and served as its Chairman from June 1999 until January 2000. Dr. Calgaard has served as a director of Valero or its former parent company since 1996. Dr. Calgaard s pertinent experience, qualifications, attributes, and skills include: a Ph.D in economics, financial literacy and expertise gained through his experience with an investment management firm, managerial experience attained through his service as Chief Executive Officer of an investment management firm and as President of Trinity University, the knowledge and experience he has attained through his service on other public company boards, and the knowledge and experience he has attained through his service on Valero s Board since 1996.

*Mr. Choate* retired from Allstate Corporation, an insurance company, at the end of 1998 where he had served as Chairman of the Board and Chief Executive Officer since 1995. Mr. Choate also serves as a director of Amgen, Inc. and Van Kampen Mutual Funds. He has served as a director of Valero since 1999. Mr. Choate s pertinent experience, qualifications, attributes, and skills include: financial literacy and managerial experience attained through his service as Chief Executive Officer and Chairman of Allstate Corporation, the knowledge and experience he has attained through service on the board of other public companies, and the knowledge and experience he has attained through his service on Valero s Board since 1999.

*Mr. Engelhardt* is Chairman of the Board and Executive Advisor of Patriot Coal Corporation. Mr. Engelhardt served as Chief Executive Officer of Peabody Energy Corporation or its predecessor companies from 1990 to December 2005 and as its Chairman of the Board from 1993 to October 2007. He served as Co-Chief Executive Officer of The Energy Group (composed of Eastern Electricity in the United Kingdom, Peabody in the U.S. and Australia, and Citizens power in the U.S.) from 1997 to 1998, Chairman of Suburban Propane Company from 1995 to 1996, Chairman of Cornerstone Construction and Materials from 1994 to 1995, Director and Group Vice President of Hanson Industries from 1995 to 1996, and Chairman of the Federal Reserve Bank of St. Louis from 2007 to 2008. Mr. Engelhardt is also a director of The Williams Companies, Inc. He has served as a director of Valero since 2006. Mr. Engelhardt s pertinent experience, qualifications, attributes, and skills include: financial literacy and managerial experience attained through his service as Chief Executive Officer and Chairman of the Board of Peabody Energy Corporation, the knowledge and experience he has attained through service on the board of other public companies, and the knowledge and experience he has attained through his service on Valero s Board since 2006.

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*Mr. Klesse* is Valero s Chairman of the Board, Chief Executive Officer, and President. He was elected Chairman of the Board in January 2007, and was elected President in January 2008. He previously served as Valero s Chief Executive Officer and Vice Chairman of the Board since the end of 2005. He served as Valero s Executive Vice President and Chief Operating Officer from 2003 through 2005, and as Executive Vice President-Refining and Commercial Operations since Valero s acquisition of UDS in 2001. Mr. Klesse s pertinent experience, qualifications, attributes, and skills include: his experience in virtually every aspect of the refining industry for over 40 years, including his approximately 23 years of service with UDS and Valero; and the knowledge and experience he has attained through his service on Valero s Board since 2005, and as its Chairman of the Board since 2007.

*Senator Nickles* retired in January 2005 as U.S. Senator from Oklahoma after serving in the U.S. Senate for 24 years. He had also served in the Oklahoma State Senate for two years. During his tenure as a U.S. Senator, he was Assistant Republican Leader for six years, Chairman of the Republican Senatorial Committee, and Chairman of the Republican Policy Committee. He served as Chairman of the Budget Committee, and as a member of the Finance and Energy and Natural Resources Committees. In 2005, he formed and is the Chairman and Chief Executive Officer of The Nickles Group, a Washington-based consulting and business venture firm. Senator Nickles also serves on the Board of Directors of Chesapeake Energy Corporation; Washington Mutual Investors Fund; JP Morgan Value Opportunities Fund; and American Funds Tax Exempt Series I. He is formerly a director of Fortress International Group, Inc. He has served as a director of Valero since 2005. His pertinent experience, qualifications, attributes, and skills include: the extensive political, legislative and regulatory knowledge and expertise attained through his 24 years of service as a U.S. Senator; the experience attained through his service on the boards of other public companies; the knowledge and experience he has attained from serving as founder and chief executive officer of a consulting and business venture firm; and the knowledge and experience he has attained through his service on Valero s Board since 2005.

*Dr. Purcell* is Director of the Center for Hemispheric Policy at the University of Miami. The Center examines political, economic, financial, trade, and security issues in Latin America, as well as U.S. Latin America relations. Dr. Purcell previously served as Vice President of the Council of the Americas, a non-profit business organization of mainly Fortune 500 companies with investments in Latin America, and of the Americas Society, a non-profit educational institution, both in New York City. Until 2005, she served on the boards of Scudder Global High Income Fund, Scudder New Asia Fund, The Brazil Fund, and Scudder Global Commodities Stock Fund, Inc. Dr. Purcell has been a director of Valero or its former parent company since 1994. Dr. Purcell s pertinent experience, qualifications, attributes, and skills include: economic, political and international relations expertise attained through her experience with the University of Miami, the Council of Americas, and the Americas Society; a Ph.D in political science;, financial literacy and experience attained through her service on the boards and audit committees of several closed-end mutual funds; and the knowledge and experience she has attained through her service on Valero s Board since 1994.

*Mr. Waters* has been the managing partner of Compass Advisers LLP and its predecessor partnership since 1996 and the Chief Executive of Compass Partners European Equity Fund since 2005. From 1988 to 1996, he served in several capacities at Morgan Stanley, including Co-Head of the Mergers and Acquisitions department from 1990 to 1992, Co-Chief Executive Officer of Morgan Stanley Europe from 1992 to 1996, and as a member of the firm s worldwide Firm Operating Committee from 1992 to 1996. From 1974 to 1988, he was with Lehman Brothers, co-founding the Mergers and Acquisitions department in 1977, becoming a partner in 1980 and serving as Co-Head of the Mergers and Acquisitions department from 1985 to 1988. Mr. Waters is also a director of Boston Private Financial Holdings, Chairman of the Advisory Board of the Boston University School of Public Health, Chairman of the United States Naval Institute, and Co-Chairman of the Harvard College Fund. He has served as a director of Valero since 2008. His pertinent experience, qualifications, attributes, and skills include: financial literacy and expertise, capital markets expertise, and managerial experience gained through his mergers

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and acquisitions experience and leadership roles with investment banking firms, Lehman Brothers, Morgan Stanley, and Compass Advisers LLP; and the knowledge and experience he has attained through his service on other public company boards.

For information regarding the nominees holdings of Common Stock, compensation, and other arrangements, see Information Regarding the Board of Directors, Beneficial Ownership of Valero Securities, Compensation Discussion and Analysis, Executive Compensation, and Certain Relationships and Related Transactions.

## BENEFICIAL OWNERSHIP OF VALERO SECURITIES

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table presents information regarding each person, or group of affiliated persons, we know to be a beneficial owner of more than five percent of our Common Stock as of February 1, 2010. The information is based solely upon reports filed by such persons with the SEC.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|
| AXA Financial, Inc.<br>1290 Avenue of the Americas<br>New York, NY 10104 | 32,109,811 (1) | 5.7% |

(1) AXA Financial, Inc. filed with the SEC (pursuant to a joint filing agreement among AXA Financial, Inc., AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, and AXA) a Schedule 13G on February 12, 2010, reporting that it or certain of its affiliates beneficially owned in the aggregate 32,109,811 shares, that it had sole voting power with respect to 23,877,058 shares and sole

dispositive
power with
respect to
32,109,811
shares.

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## SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table presents information as of February 1, 2010 regarding Common Stock beneficially owned (or deemed to be owned) by each nominee for director, each current director, each executive officer named in the Summary Compensation Table, and all current directors and executive officers of Valero as a group. No executive officer, director, or nominee for director owns any class of equity securities of Valero other than Common Stock. None of the shares listed below are pledged as security. The address for each person is One Valero Way, San Antonio, Texas 78249.

| Name of Beneficial Owner | Shares Held (1) | Shares Under Options (2) | Total Shares | Percent of Class |
|---|---|---|---|---|
| Kimberly S. Bowers | 79,530 | 39,125 | 118,655 | 0.02% |
| Ronald K. Calgaard | 32,959 | 13,000 | 45,959 | * |
| Jerry D. Choate | 51,883 | 33,000 | 84,883 | * |
| Michael S. Ciskowski | 274,153 | 99,392 | 373,545 | 0.07% |
| Irl F. Engelhardt | 26,708 | 5,000 | 31,708 | * |
| Ruben M. Escobedo | 21,756 | 0 | 21,756 | * |
| Joseph W. Gorder | 101,352 | 47,259 | 148,611 | 0.03% |
| William R. Klesse | 874,860 | 574,741 | 1,449,601 | 0.26% |
| Bob Marbut | 40,926 | 71,120 | 112,046 | * |
| Richard J. Marcogliese | 237,821 | 297,209 | 535,030 | 0.09% |
| Donald L. Nickles | 14,683 | 11,000 | 25,683 | * |
| Robert A. Profusek | 14,544 | 11,000 | 25,544 | * |
| Susan Kaufman Purcell | 13,650 | 29,000 | 42,650 | * |
| Stephen M. Waters | 11,178 | 10,000 | 21,178 | * |
| Directors and executive officers as a group (15 persons) | 1,870,124 | 1,265,781 | 3,135,905 | * |

* Indicates that the percentage of beneficial ownership of the directors, nominees, and by all directors and executive officers as a group does not exceed 1% of the class.

(1) Includes shares allocated under the Thrift Plan through January 31, 2010, and shares

of restricted stock. Restricted stock may not be disposed of until vested. This column does not include shares that could be acquired under options, which are reported in the column captioned Shares Under Options.

(2) Represents shares of Common Stock that may be acquired under outstanding stock options currently exercisable and that are exercisable within 60 days from February 1, 2010. Shares subject to options may not be voted unless the options are exercised. Options that may become exercisable within such 60-day period only in the event of a change of control of Valero are excluded.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), requires our executive officers, directors, and greater than 10 percent stockholders to file with the SEC certain reports of ownership and changes in ownership of our Common Stock. Based on a review of the copies of such forms received and written representations from certain reporting persons, we believe that during the year ended December 31, 2009, all Section 16(a) reports applicable to our executive officers, directors and greater than 10 percent stockholders were timely filed.

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## COMPENSATION CONSULTANT DISCLOSURES

In 2009, the Compensation Committee retained Towers Perrin (now doing business as Towers Watson) as an independent compensation consultant. In its role as an advisor to the Compensation Committee, Towers Perrin was retained directly by the Committee, which, in its sole discretion, has the authority to select, retain, and/or terminate its relationship with the consulting firm. In 2009, Towers Perrin provided the Committee with objective and expert analyses, independent advice, and information with respect to executive and director compensation. Towers Perrin received $589,718 in professional fees for its executive and director compensation services to the Committee during 2009. Towers Perrin did not provide other consulting services to the Committee, to Valero, or to any senior executives of Valero in 2009.

During 2009, Towers Perrin s executive and director compensation consulting services included:

- Assistance with the determination of appropriate peer and comparator companies for benchmarking executive pay and monitoring Valero s performance;
- Assistance with the determination of Valero s overall executive compensation philosophy in light of Valero s business strategy and market considerations;
- Competitive pay assessment of target and actual total direct compensation for executives, with separate analyses of base salary, annual incentive, and long-term incentive compensation;
- Competitive pay assessment of director compensation;
- Assessment of, and recommendation of enhancements to, Valero s annual incentive program with respect to both financial and operational performance metrics;
- Recommendations for Valero s long-term incentive program strategy, including the appropriate mix of equity incentive vehicles and determination of competitive equity grant guidelines consistent with Valero s overall pay philosophy;
- Independent assessment of the risk profile of Valero s executive incentive plans to assess whether such plans encourage excessive financial risk on the part of plan participants; and
- Updates on trends and developments in executive compensation, new regulatory issues, and best practices.

## RISK ASSESSMENT OF COMPENSATION PROGRAMS

During 2009, the Compensation Committee, assisted by Towers Perrin, conducted a risk assessment of Valero s compensation programs. The Committee concluded that, viewed holistically, Valero s incentive compensation programs effectively balance risk and reward. The scope of the risk review included an assessment of both the annual incentive plan for management as well as long-term incentives pursuant to the 2005 Omnibus Stock Incentive Plan, and included an analysis of the mix of award opportunities (*i.e.*, short-vs. long-term), performance targets and metrics, the target-setting process, and the administration and governance associated with the plans. Features of our compensation programs that we believe mitigate excessive risk taking include:

- the mix between fixed and variable, annual and long-term, and cash and equity compensation, designed to encourage strategies and actions that are in Valero s long-term best interests,
- determination of incentive awards based on a variety of indicators of performance, thus diversifying the risk associated with a single indicator of performance,

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- multi-year vesting periods for equity incentive awards, which encourage focus on sustained growth and earnings, and

- our compensation-related policies, including the executive compensation clawback policy and stock retention guidelines (discussed below under the caption Compensation Discussion and Analysis Compensation Related Policies ).

*The following Compensation Committee Report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference into any of Valero s filings under the Securities Act of 1933, as amended (the Securities Act ), or the Exchange Act, respectively, whether made before or after the date of this proxy statement and irrespective of any general incorporation language therein. Donald L. Nickles was appointed to the Compensation Committee in 2010, and is therefore not listed below the Compensation Committee Report pertaining to the fiscal year ended December 31, 2009.*

## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the following Compensation Discussion and Analysis with management. Based on the foregoing review and discussions and such other matters the Compensation Committee deemed relevant and appropriate, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

***Members of the Compensation Committee:***

Bob Marbut, Chairman
Jerry D. Choate
Robert A. Profusek

## COMPENSATION DISCUSSION AND ANALYSIS

### OVERVIEW

Our philosophy for compensating our named executive officers (as defined below) is based on the belief that a significant portion of executive compensation should be incentive-based and determined by both company and individual performance. Our executive compensation programs are designed to accomplish the following long-term objectives:

- to produce long-term, positive results for our stockholders;

- to build stockholder wealth while practicing good corporate governance;

- to align executive incentive compensation with Valero s short- and long-term performance results, with discrete measurements of such performance; and

- to provide market-competitive compensation and benefits to enable us to recruit, retain, and motivate the executive talent necessary to be successful.

Compensation for our named executive officers includes base salary, an annual incentive bonus opportunity, and long-term equity-based incentives. Our named executive officers also participate in benefit plans generally available to our other employees.

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*Named Executive Officers*. In accordance with SEC rules, the individuals serving as our principal executive officer (*i.e.*, William R. Klesse, Chief Executive Officer) and our principal financial officer (*i.e.*, Michael S. Ciskowski, Chief Financial Officer) during the last completed fiscal year, and our three other most highly compensated executive officers who were serving as executive officers at the end of the last completed fiscal year (*i.e.*, Richard J. Marcogliese, Kimberly S. Bowers, and Joseph W. Gorder) are referred to collectively in this proxy statement as the named executive officers.

**ADMINISTRATION OF EXECUTIVE COMPENSATION PROGRAMS**

Our executive compensation programs are administered by our Board s Compensation Committee. The Compensation Committee is composed of four independent directors who are not participants in our executive compensation programs. Policies adopted by the Compensation Committee are implemented by our compensation and benefits staff. The duties and responsibilities of the Compensation Committee are further described in this proxy statement under the caption Information Regarding the Board of Directors Committees of the Board Compensation Committee.

In 2009, the Compensation Committee retained Towers Perrin (now doing business as Towers Watson) as an independent compensation consultant with respect to executive and director compensation matters. The nature and scope of the consultant s assignment are described above under the caption Compensation Consultant Disclosures.

***Benchmarking Data***

When determining executive compensation, the Compensation Committee relies on several sources of compensation data in assessing benchmark rates of base salary, annual incentive compensation, and long-term compensation. The Towers Perrin Compensation Data Bank and Compensation Comparator Group (further described below) are used as references in benchmarking compensation for our named executive officers. These references are sometimes referred to as compensation survey data or competitive survey data in this proxy statement.

*Towers Perrin Compensation Data Bank*

The Towers Perrin Compensation Data Bank ( Data Bank ) includes 700 companies operating in several industries. Use of the Data Bank enables Valero to compare its executive base salary compensation to that of other companies from many industries having similar revenues and market capitalization. Valero believes that the Data Bank represents an appropriate benchmark for Valero s executive base salaries because Valero competes across all industry lines for executive talent. Valero believes that many of the skills required for a successful management team (*e.g.*, business acumen, leadership, integrity) transcend the refining industry. Valero believes that to recruit and retain executive talent, Valero must compete with all companies, not just refining and marketing companies. The Data Bank provides a guide for Valero to assess how its executive base salaries compare with the salaries of a wide range of other businesses.

*Compensation Comparator Group*

The Compensation Comparator Group, a subset of the Towers Perrin Compensation Data Bank, consists of compensation information and analyses of Towers Perrin that includes compensation practices and available data for the following 13 companies that significantly participate in the domestic oil and gas industry:

| | |
|---|---|
| *BP PLC* | *Marathon Oil Corporation* |
| *Chevron Corporation* | *Murphy Oil Corporation* |
| *CITGO Petroleum Corporation* | *Occidental Petroleum Corporation* |
| *ConocoPhillips* | *Shell Oil Company (USA)* |
| *Exxon Mobil Corporation* | *Sunoco, Inc.* |
| *Hess Corporation* | *Tesoro Corporation* |
| *Koch Industries, Inc.* | |

Valero uses the Compensation Comparator Group as a reference in benchmarking base salaries, annual incentive bonus targets, and long-term incentive targets for our named executive officers. Selection of the Compensation Comparator Group reflects consideration of each company s relative revenues, asset base, employee population and capitalization, and the scope of managerial responsibility and reporting relationships for the positions under consideration.

*Peer Group*

We also use a peer group ( Peer Group ) to measure Valero s (i) return-on-investment (ROI) metric, for purposes of calculating the annual incentive bonus, and (ii) total shareholder return (TSR) metric, for the purpose of calculating the number of shares of Common Stock that may be issued upon the vesting of performance shares. The Peer Group is composed of the following 13 companies engaged in domestic refining operations:

| | |
|---|---|
| *Alon USA Energy Inc.* | *Holly Corporation* |
| *Chevron Corporation* | *Marathon Oil Corporation* |
| *ConocoPhillips* | *Murphy Oil Corporation* |
| *CVR Energy Inc.* | *Sunoco, Inc.* |
| *Exxon Mobil Corporation* | *Tesoro Corporation* |
| *Frontier Oil Corporation* | *Western Refining Inc.* |
| *Hess Corporation* | |

The Peer Group represents the group of companies that we use for purposes of the Performance Graph disclosed in Part II, Item 5 of our Form 10-K for the year ended December 31, 2009. The Peer Group is not used in benchmarking base salaries, bonus targets, or long-term incentive targets.

*Use of Benchmarking Data*

Recommendations for base salary, bonuses, and other compensation arrangements are developed under the supervision of the Compensation Committee by our compensation and benefits staff using the foregoing information and analyses and with assistance from Towers Perrin. Use of the compensation survey data is consistent with our philosophy of providing executive compensation and benefits that are competitive with companies competing with us for executive talent. In addition, the use of competitive compensation survey data and analyses assists the Compensation Committee in gauging our pay levels and targets relative to companies in our Compensation Comparator Group, the domestic oil refining and marketing industry, and general industry.

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In addition to benchmarking competitive pay levels to establish compensation levels and targets, we also consider the relative importance of a particular management position in comparison to other management positions in the organization. In this regard, when setting the compensation level and target for a particular position, we evaluate that position s scope and nature of responsibilities, size of business unit, complexity of duties and responsibilities, as well as that position s relationship to managerial authorities throughout the management ranks of Valero.

***Process and Timing of Compensation Decisions***

The Compensation Committee reviews and approves all compensation targets and payments for the named executive officers. The Chief Executive Officer evaluates the performance of the other named executive officers and develops individual recommendations based upon the competitive survey data. Both the Chief Executive Officer and the Committee may make adjustments to the recommended compensation based upon an assessment of an individual s performance and contributions to the Company. The compensation for the Chief Executive Officer is reviewed and approved by the Compensation Committee and by the Board, based on the competitive survey data, and adjustments may be made based upon their independent evaluation of the Chief Executive Officer s performance and contributions. In addition, the charter of the Compensation Committee requires the independent directors of the Board to review and approve all compensation for the Chief Executive Officer.

The Compensation Committee establishes the target levels of annual incentive and long-term incentive compensation for the current fiscal year based upon its review of competitive market data provided by Towers Perrin. The Compensation Committee also reviews competitive market data for annual salary rates for executive officer positions for the next fiscal year and recommends new salary rates to become effective the next fiscal year. The Compensation Committee may, however, review salaries or grant long-term incentive awards at other times during the year because of new appointments or promotions during the year.

The following summarizes the approximate timing of some of our more significant compensation events in 2009:

*First Quarter*:

- determined annual incentive bonus for preceding fiscal year
- reviewed and certified financial performance for performance shares granted in prior years

*Third Quarter*:

- established financial performance objectives and operational and strategic performance objectives for annual incentive bonus
- established target levels of annual incentive and long-term incentive compensation for executive officers for the current fiscal year

*Fourth Quarter*:

- considered base salaries for executive officers for next fiscal year
- considered long-term incentive compensation awards for executive officers for current fiscal year

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## ELEMENTS OF EXECUTIVE COMPENSATION

### *General*

Our executive compensation programs consist of the following material elements:

- base salaries;
- annual incentive bonuses;
- long-term equity-based incentives, including:
  - stock options
  - restricted stock; and
- medical and other insurance benefits, retirement benefits, and other perquisites.

We chose these elements in order to remain competitive in attracting and retaining executive talent and to provide strong performance incentives that provide the potential for both current and long-term payouts. We use base salary as the foundation for our executive compensation program. Base salary is designed to provide a fixed level of competitive pay that reflects the executive officer s primary duties and responsibilities as well as a foundation upon which incentive opportunities and benefit levels are established. Our annual incentive bonuses are designed to focus our executive officers on Valero s attainment of key financial performance measures and key operational and strategic measures to generate profitable annual operations and sustaining results in conjunction with operating safely, being environmentally responsible, maintaining reliable operations, and managing costs. Our long-term equity incentive awards are designed to tie the executive officer s financial reward opportunities with the rewards to stockholders as measured by long-term stock price performance, payment of regular dividends, and increasing our stockholders return-on-investment. In this proxy statement, the term Total Direct Compensation refers to the sum of an executive officer s base salary, incentive bonus, and long-term incentive awards for a particular fiscal year.

Our Compensation Committee s general philosophy for 2009 was to target base salary compensation for our named executive officers at or near the 50th percentile of competitive survey data. Base salaries are benchmarked on the 50th percentile of competitive survey data using regression analysis based on company size as measured by annual revenues. In 2009, for base salaries, actual compensation for each of our named executive officers was either at or below the 50th percentile benchmark. The 50th percentile has been established as a desired target for our executives base salaries, and through the past several years the Company has been working toward that target. Significant changes in the structure and size of Valero from 2000 to the present, including significant mergers in 2001 and 2005, have resulted in changing landscapes of competitive compensation and benchmarks from year to year.

We established incentive target opportunities (expressed as a percentage of base salary) for each executive position based upon the 65th percentile benchmark of the Compensation Comparator Group for the annual incentive bonus, and the 65th percentile benchmark of the Compensation Comparator Group for long-term incentives.

In 2009, the Compensation Committee directed a change in the Company s strategy with respect to its annual incentive bonus program and long-term incentive compensation. The change was made following a wide-ranging review in mid-2009 by the Committee of substantially all aspects of Valero s compensation philosophy, programs, and metrics. The review included a lengthy special meeting of the Compensation Committee in which it received extensive input from the Committee s compensation consultant and Valero management with respect to these matters, and the Committee modified certain aspects of Valero s compensation programs. Those modifications are explained below under the caption Annual Incentive Bonus.

In 2009, the long-term incentive compensation program was also modified to change the weighting applicable to the types of long-term incentive awards that could be granted. In the prior year, an executive s total long-term incentive target was composed of 60% stock options and 40% restricted stock. In 2009, the mix of long-term incentive awards was changed to 50% of the total target in stock options and 50% of the total target in restricted stock.

For 2009, we paid annual incentive bonuses well below the 65th percentile target for our named executive officers (our CEO received no bonus), reflecting Valero s performance in 2009, which was reflective of the difficult and volatile markets for the refining industry in 2009. As described below under the caption Annual Incentive Bonus, Valero s performance for 2009 resulted in a bonus payout of 50% of target. Long-term incentive grants awarded to our named executive officers in 2009 were generally at or near the 65th percentile target. Because the nature of long-term compensation is prospective and forward looking, the Committee desires to make long-term grants at the compensation benchmark of the 65th percentile such that attainment of performance above the median will result in future rewards to management that are above the market median as well.

***Relative Size of Major Compensation Elements***

In setting executive compensation, the Compensation Committee considers the aggregate amount of compensation payable to an executive officer and the form of the compensation. The Committee seeks to achieve an appropriate balance between immediate cash rewards for the achievement of company and personal objectives and long-term incentives that align the interests of our executive officers with those of our stockholders. The size of each element is based on the assessment of competitive market practices as well as company and individual performance. The Committee believes that making a significant portion of an executive officer s incentive compensation contingent on long-term stock price performance more closely aligns the executive officer s interests with those of our stockholders.

We evaluate the total compensation opportunity offered to each executive officer at least once annually and have conducted compensation assessments on several occasions during the course of the year. In this regard, the Compensation Committee analyzes total compensation from a market competitive perspective, and then evaluates each component relative to its market reference. Because we place such a large amount of our total executive compensation opportunity at risk in the form of variable pay (annual and long-term incentives), the Committee generally does not adjust current compensation based upon realized gains or losses from prior incentive awards, prior compensation, or current stock holdings. For example, we normally will not change the size of a target long-term incentive grant in a particular year solely because of the way in which Valero s stock price performed during the immediately preceding years, although we may take this into account in other compensation decisions. The Compensation Committee recognizes that refining and marketing is a volatile industry and strives to maintain a measure of predictability consistent with a substantial reliance on variable compensation structures in furtherance of a fundamental pay-for-performance philosophy.

The following table summarizes the relative size of base salary and target incentive compensation for 2009 for each of our named executive officers:

| | Percentage of Total Direct Compensation | | |
|---|---|---|---|
| **Name** | **Base Salary** | **Annual Incentive Bonus** | **Long-Term Incentives** |
| William R. Klesse | 13% | 17% | 70% |
| Richard J. Marcogliese | 16% | 20% | 64% |
| Michael S. Ciskowski | 16% | 20% | 64% |
| Kimberly S. Bowers | 24% | 20% | 56% |
| Joseph W. Gorder | 24% | 20% | 56% |

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***Individual Performance and Personal Objectives***

The Compensation Committee evaluates the individual performance and performance objectives for the Chief Executive Officer and our other named executive officers. Performance and compensation for our Chief Executive Officer are reviewed and approved by the Compensation Committee and the Board s independent directors. For officers other than the Chief Executive Officer, individual performance and compensation are evaluated by the Compensation Committee with the recommendations of the Chief Executive Officer. Individual performance and objectives are specific to each officer position.

Assessment of individual performance may include objective criteria, but by necessity it is largely subjective. Generally, we do not use prescribed targets or other quantitative criteria such as an executive s business unit achieving a certain percentage of sales or growth to measure individual performance. We do employ quantitative metrics for the company s performance under our annual incentive bonus program (as described below under the caption Annual Incentive Bonus ). The criteria used to measure an individual s performance may include assessment of objective criteria (*e.g.*, execution of projects within budget parameters, improving an operating unit s profitability, or timely completing an acquisition or divestiture) as well as more qualitative factors such as the executive officer s ability to lead, ability to communicate, and successful adherence to Valero s stated core values (*i.e.*, commitment to environment and safety, acting with integrity, showing work commitment, communicating effectively, and respecting others). There are no specific weights assigned to these various elements of individual performance.

***Base Salaries***

Base salaries for each executive officer position are determined using data from the Towers Perrin Compensation Data Bank and the Compensation Comparator Group for positions with similar duties and levels of responsibility. Base salaries are reviewed annually and may be adjusted to reflect promotions, the assignment of additional responsibilities, individual performance or the performance of Valero. Salaries are also periodically adjusted to remain competitive with entities within the compensation survey data.

An executive s compensation typically increases in relation to his or her responsibilities within Valero, with the level of compensation for more senior executive officers being higher than that for less senior executive officers. For example, the base salary and overall compensation for Mr. Marcogliese (Executive Vice President and Chief Operating Officer) in 2009 was higher than that of the other named executive officers (except for our Chief Executive Officer) because the Compensation Committee believed that this compensation appropriately reflected the duties and responsibilities assigned to his position as compared to the duties and responsibilities of the other officer positions. The determination of Mr. Marcogliese s compensation in light of these duties and responsibilities was otherwise commensurate with the determination process for other named executive officers.

In 2009, the base salaries of our named executive officers were adjusted to the following levels:

| Name | Base Salary 12/31/2008 | Base Salary 12/31/2009 |
|---|---|---|
| William R. Klesse | $ 1,500,000 | $ 1,500,000 |
| Richard J. Marcogliese | $ 855,000 | $ 955,000 |
| Michael S. Ciskowski | $ 700,000 | $ 750,000 |
| Kimberly S. Bowers | $ 475,000 | $ 494,000 |
| Joseph W. Gorder | $ 445,000 | $ 460,000 |

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The base salaries for our Chief Executive Officer and other executive officers are approved by the Compensation Committee taking into consideration compensation survey data. In addition, the Compensation Committee considers the recommendations of the Chief Executive Officer with regard to officers other than the Chief Executive Officer. The base salary and all other compensation of the Chief Executive Officer are reviewed and approved by the independent directors of the Board.

The base salaries of our named executive officers (other than the Chief Executive Officer) were increased for fiscal year 2009 to remain competitive in our market. Effective January 1, 2010, the annual base salaries of Kimberly S. Bowers and Joseph W. Gorder were increased to $515,000; and $469,000; respectively, in recognition of competitive survey data.

***Annual Incentive Bonus***

Our named executive officers can earn annual incentive bonuses based on the following three factors:

- the position of the named executive officer, which is used to determine a targeted percentage of annual base salary that may be awarded as incentive bonus based on the Compensation Comparator Group at the 65th percentile benchmark, with the targets ranging from a low of 80% of base salary to 135% of base salary for our Chief Executive Officer;

- Valero s realization of quantitative financial performance goals and operational and strategic performance measures for the year; and

- a qualitative evaluation of the individual s performance.

The following table shows the percentages of each named executive officer s annual base salary and Total Direct Compensation that represent his or her annual bonus target for the fiscal year ended December 31, 2009:

| **Name** | **Annual Incentive Bonus Target as a Percentage of Base Salary** | **Annual Incentive Bonus Target as a Percentage of Total Direct Compensation** |
|---|---|---|
| William R. Klesse | 135% | 17% |
| Richard J. Marcogliese | 125% | 20% |
| Michael S. Ciskowski | 125% | 20% |
| Kimberly S. Bowers | 80% | 20% |
| Joseph W. Gorder | 80% | 20% |

A named executive officer s annual incentive bonus is determined by first multiplying the executive officer s bonus target percentage by his or her base salary (*e.g.*, for Mr. Klesse, 135% times $1,500,000 results in an annual incentive bonus target of $2,025,000). The amount of the bonus payment ultimately made to a named executive officer can range from 0% of the bonus target amount to 200% of the bonus target amount, depending on Valero s achievement of certain performance objectives.

In 2009, the annual incentive bonus program s performance measures were modified to include two segments: Financial Performance Measures and Operational and Strategic Measures, with each segment weighted as 50% of the total bonus opportunity. The new measurement system eliminates the 25% discretionary adjustment factor that existed under the previous bonus program.

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The Financial Performance Measures are the same three measures we used in 2008 and prior years (as described below under the caption Financial Performance Measures ). Targets for the Financial Performance Measures are established by the Committee during the fiscal year. After completion of the fiscal year, each of the three Financial Performance Measures is measured against Valero s actual performance, with each measure being weighted equally as one-third of the final Financial Performance Measures score.

The other half of a named executive officer s bonus is earned according to Valero s achievement with respect to three Operational and Strategic Measures. This segment of performance measures is new for the program. These metrics measure Valero s achievements in the areas of (i) health, safety, and environmental, (ii) mechanical availability, and (iii) cost management and expense control, as more fully described below under the caption Operational and Strategic Performance Measures. Targets for the Operational and Strategic Measures are also established by the Committee during the fiscal year. After completion of the fiscal year, each of the three Operational and Strategic Measures is measured against Valero s actual performance in these areas.

Each performance segment is weighted equally. Thus, if Valero s performance score under the Financial Performance Measures segment were 68%, and if Valero s performance score under the Operational and Strategic Measures segment were 110%, then the final, total performance score of Valero for that fiscal year s bonus program would be 89% (representing the sum of 68% times 50%, plus 110% times 50%). Continuing with the example of Mr. Klesse above, his bonus payment for the hypothetical year would be equal to $1,802,250 (representing his annual incentive bonus target of $2,025,000 times 89%).

*Financial Performance Measures*

The three Financial Performance Measures for Valero s annual incentive bonus program are the following. These are measured against the target levels pre-established by the Compensation Committee.

- Valero s earnings per share, or EPS, compared to threshold, target, and maximum EPS performance levels approved by the Compensation Committee;

- Valero s total stockholder return, or TSR, compared to threshold, target, and maximum TSR performance levels approved by the Compensation Committee (TSR measures the growth in the daily average closing price per share of our Common Stock during the month of November, including the reinvestment of dividends, compared with the daily average closing price of our Common Stock during the corresponding period in the prior year); and

- Valero s return-on-investment, or ROI, percentile ranking compared to the ROI percentile of the Peer Group for the 12-month period ended September 30, 2009, as approved by the Compensation Committee.

We believe that these Financial Performance Measures appropriately reflect our business planning process and corporate financial philosophy regarding financial performance measurement. We believe that annual incentive bonus plans should measure both the quantity of earnings as well as the quality of earnings, while maintaining an appropriate focus on increasing returns to stockholders. The quantity of earnings is typically measured by some amount of earnings performance, such as earnings per share or net income from operations. The quality of earnings is typically measured by some determination of return-on-investment, such as return-on-equity or return on capital employed, allowing consideration of management s ability to generate a reasonable rate of return on the capital investment in the business. Our current incentive bonus plan considers these financial principles in its overall design.

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For the EPS and TSR performance measures, the target percentage of base salary is subject to adjustment, upward or downward, based upon whether our EPS and TSR exceed or fall short of the target EPS and TSR, respectively. For the ROI financial performance measure, the target percentage of base salary is subject to adjustment, upward or downward, depending upon whether our ROI exceeds, or falls short of, the ROI 50th percentile ranking for our Peer Group.

For the 2009 annual incentive bonus program, the Compensation Committee established the following targets: EPS of $2.80, TSR stock price of $25.00, and ROI at the 50th percentile of our ROI Peer Group ranking. For 2009, our performance did not reach payout levels for any of these targets. Accordingly, the three Financial Performance Measures of this segment generated a bonus performance score of 0% of the target bonus amounts.

*Operational and Strategic Performance Measures*

The three Operational and Strategic Measures for Valero s annual incentive bonus program are the following. These are measured against target levels pre-established by the Compensation Committee.

Valero s achievements in health, safety, and environmental ( HS&E ); and

Valero s achievements in improving refining competitiveness through improved mechanical availability ( MA ); and

Valero s achievements in cost management and expense control ( CM&EC ).

We believe that these Operational and Strategic Measures appropriately reflect key business elements of Valero. We believe that the annual incentive bonus plan should measure both Valero s financial performance as well as management s execution of key operational and strategic measures.

For the 2009 annual incentive bonus program, the Compensation Committee established the following performance targets: MA at 96.9%, and CM&EC of $156 million. Actual MA performance did not reach any payout level of target. Actual CM&EC performance achieved 184% of target. With respect to HS&E metrics for 2009, the Compensation Committee established the targets detailed in the table below. Valero s actual HS&E performance was 153% of target.

| | Refineries | Renewables | Logistics | Retail |
|---|---|---|---|---|
| Recordable Injury Rate | | | | |
| Target | 0.90 | 4.00 | 1.40 | 4.02 |
| Actual | 0.82 | 3.52 | 1.15 | 3.70 |
| Environmental Scorecard Incidents | | | | |
| Target | 430 | 54 | n/a | n/a |
| Actual | 275 | 39 | n/a | n/a |
| Reliability Incident Rate | | | | |
| Target | 1.25 | n/a | n/a | n/a |
| Actual | 1.29 | n/a | n/a | n/a |
| API Process Safety Incidents Rate | | | | |
| Target | 0.20 | 1.20 | n/a | n/a |
| Actual | 0.18 | 0.47 | n/a | n/a |
| HSE Audit Past Due Items | | | | |
| Target | 4.0 | n/a | 3.0 | n/a |
| Actual | 0.0 | n/a | 0.0 | n/a |
| Plant Outages (>1/2 day) | | | | |
| Target | n/a | 28 | n/a | n/a |
| Actual | n/a | 12 | n/a | n/a |
| Reportable Spills | | | | |
| Target | n/a | n/a | 5.0 | n/a |
| Actual | n/a | n/a | 2.0 | n/a |

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| | Refineries | Renewables | Logistics | Retail |
|---|---|---|---|---|
| Non-Reportable Spills | | | | |
| Target | n/a | n/a | 20.0 | n/a |
| Actual | n/a | n/a | 11.0 | n/a |
| Lost Time Injury Rate | | | | |
| Target | n/a | n/a | n/a | 0.80 |
| Actual | n/a | n/a | n/a | 0.69 |
| Environ l Audits/Training Compliance | | | | |
| Target | n/a | n/a | n/a | 94.2% |
| Actual | n/a | n/a | n/a | 97.0% |
| Pendant Compliance | | | | |
| Target | n/a | n/a | n/a | 89.0% |
| Actual | n/a | n/a | n/a | 93.0% |
| Cash Handling | | | | |
| Target | n/a | n/a | n/a | $125 |
| Actual | n/a | n/a | n/a | $108 |

The Compensation Committee weighted the three measures equally, resulting in a 56.2% bonus score (*i.e.*, the sum of 0%, 184%, and 153%, divided by three, and multiplied by 50%), which the Committee finally awarded as 50% for the Operational and Strategic Measures segment.

*2009 Annual Incentive Bonus Awards for Named Executive Officers*

At the request of Mr. Klesse, the Committee and the Board determined that Mr. Klesse would not be paid a bonus citing, generally, difficult industry conditions and Valero s lack of profitability.

The following table provides a summary of how the 2009 annual incentive bonus amounts paid to our named executive officers were calculated:

| | *Klesse* | *Marcogliese* | *Ciskowski* | *Bowers* | *Gorder* |
|---|---|---|---|---|---|
| Base salary (1) | $1,500,000 | $ 955,000 | $750,000 | $494,000 | $460,000 |
| Bonus target percentage (2) | 135% | 125% | 125% | 80% | 80% |
| Bonus target amount (3) | $2,025,000 | $1,193,750 | $937,500 | $395,200 | $368,000 |
| Valero performance score (4) | 50% | 50% | 50% | 50% | 50% |
| Bonus calculation (5) | $1,012,500 | $ 596,875 | $468,750 | $197,600 | $184,000 |
| Actual bonus amount paid (6) | $ 0 | $ 450,000 | $450,000 | $200,000 | $200,000 |

<u>Footnotes</u>:

(1) As described in Compensation Discussion and Analysis Elements of Executive Compensation Base Salaries.

(2) As described in Compensation

Discussion and Analysis Elements of Executive Compensation Annual Incentive Bonus.

(3) Determined by multiplying base salary times bonus target percentage.

(4) Determined by adding Valero s Financial Performance Measures score (times 50%) to Valero s Operational and Strategic Measures score (times 50%). Valero s total performance score can range from 0% to 200%. For 2009, Valero s bonus performance score was 50% (representing 0% from the Financial Performance Measures segment plus 50% from the Operational and Strategic Measures segment).

(5) Determined by multiplying bonus target amount by

Valero performance score.

(6) As disclosed in the Summary Compensation Table. The actual bonus amount paid reflects rounding adjustments, and in certain years (such as 2009) can reflect other adjustments based upon the exercise of discretion of the Chief Executive Officer and the Compensation Committee as described above in this subsection and in Compensation Discussion and Analysis Elements of Executive Compensation Individual Performance and Personal Objectives.

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***Long-Term Incentive Awards***

We provide stock-based, long-term compensation for executive officers through our stockholder-approved equity plans. The plans provide for a variety of stock and stock-based awards, including stock options and restricted stock, each of which vest over a period determined by the Compensation Committee. The Committee does not time the grants of long-term incentive awards around Valero s release of undisclosed material information.

For each eligible officer, a target amount of long-term incentives is established based on the 65th percentile of the Compensation Comparator Group and is expressed as a percentage of base salary. An executive officer s targeted award may be adjusted based upon the Compensation Committee s evaluation of the executive officer s individual performance, which (for officers other than the Chief Executive Officer) takes into consideration the recommendation of the Chief Executive Officer. See Compensation Discussion and Analysis Elements of Executive Compensation Individual Performance and Personal Objectives. As with the annual incentive bonus, the Compensation Committee retains discretion to determine whether any award should be made.

The following table shows the percentages of each named executive officer s base salary and Total Direct Compensation that represent his or her long-term compensation target for the fiscal year ended December 31, 2009:

| Name | Long-Term Incentive Awards Target as a Percentage of Base Salary | Long-Term Incentive Awards Target as a Percentage of Total Direct Compensation |
|---|---|---|
| William R. Klesse | 540% | 70% |
| Richard J. Marcogliese | 415% | 64% |
| Michael S. Ciskowski | 415% | 64% |
| Kimberly S. Bowers | 230% | 56% |
| Joseph W. Gorder | 230% | 56% |

*Stock Options and Restricted Stock*

Our 2009 long-term incentive awards consisted of an allocation of stock options and restricted stock weighted 50% in the form of stock options and 50% in the form of restricted stock, and is based on our determination to provide an appropriate balance of long-term incentives. The Compensation Committee presently expects to make awards of options and restricted stock annually.

Stock options granted in 2009 will vest in equal annual installments over a period of three years and have ten-year terms. Grants and vesting of stock options are not contingent upon the achievement of any specified performance targets. However, because the exercise price of options cannot be less than 100 percent of the fair market value of our Common Stock on the date of grant, options will provide a benefit to the executive only to the extent that there is appreciation in the market price of our Common Stock. Options and restricted stock are subject to forfeiture if an executive terminates employment prior to vesting.

In 2009, the Compensation Committee determined that awards of restricted stock will vest in equal annual installments over a period of five years and contain a performance accelerator feature to provide for the potential early vesting of one-half of the restricted stock grant. The performance accelerator feature requires that the closing market price per share for our Common Stock must be $40.00 or higher for five consecutive trading days, whereupon the shares then eligible for accelerated vesting will vest.

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The Compensation Committee considers and grants stock options and restricted stock to our executive officers and other employees annually, typically during the third or fourth quarter. The Committee may also grant stock options or restricted stock to new executive officers and employees when they are hired or promoted. During periods between meetings of the Compensation Committee, as an administrative convenience, the Chief Executive Officer has limited authority to make awards to employees other than executive officers when they are hired or promoted.

As required by our equity incentive plans, the exercise price for stock options is equal to the the mean of the highest and lowest sales prices per share of our Common Stock as reported on the NYSE on the grant date. All awards of options described in the Summary Compensation Table and Grants of Plan-Based Awards Table of this proxy statement were reviewed and approved by the Compensation Committee. All of these stock options have a grant date that is equal to or after the date on which the options were approved by the Compensation Committee, except for grants to our Chief Executive Officer, which have a grant date that is equal to the date on which our independent directors approve grants recommended by the Compensation Committee.

The stock option and restricted stock components of our executive officers 2009 long-term incentive awards were granted in October 2009. The following table shows the percentages of each named executive officer s base salary and Total Direct Compensation that represent his or her stock option and restricted stock targets for the fiscal year ended December 31, 2009.

| Name | Stock Option Target as a Percentage of Base Salary | Stock Option Target as a Percentage of Total Direct Compensation | Restricted Stock Target as a Percentage of Base Salary | Restricted Stock Target as Percentage of Total Direct Compensation |
|---|---|---|---|---|
| William R. Klesse | 270% | 35% | 270% | 35% |
| Richard J. Marcogliese | 207.5% | 32% | 207.5% | 32% |
| Michael S. Ciskowski | 207.5% | 32% | 207.5% | 32% |
| Kimberly S. Bowers | 115% | 28% | 115% | 28% |
| Joseph W. Gorder | 115% | 28% | 115% | 28% |

*Performance Shares*

In prior years, performance shares comprised a portion of the executive officers long-term incentive targets. Although no performance shares were granted in 2009 or 2008, each of the named executive officers holds performance shares that were granted in 2006 and 2007. These shares have scheduled vesting dates through January 2011. The performance shares are earned (vest) only upon Valero s achievement of an objective performance measure, namely total stockholder return.

Specifically, each award is subject to vesting in three annual increments, based upon our TSR during rolling three-year periods that end on December 31 of each year following the date of grant. At the end of each performance period, our TSR for the prior three years is compared to the TSR of our Peer Group and ranked by quartile. An officer then earns 0%, 50%, 100%, or 150% of that portion of the initial grant amount that is vesting, depending upon whether our TSR is in the last, 3rd, 2nd, or 1st quartile, respectively, and can earn 200% if we rank highest in the group. Amounts not earned in a given performance period can be carried forward for one additional performance period and up to 100% of the carried amount can still be earned, depending upon the quartile performance ranking for that subsequent period. For the performance period ended December 31, 2009, Valero s TSR placed Valero in the third quartile, resulting in a 50% vesting of eligible shares.

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In 2008, the Compensation Committee determined to eliminate performance shares as a component of our long-term incentive program chose to base our long-term incentive program on stock options and restricted stock after considering that most of our peers employ these two long-term incentive vehicles. Additionally, the Committee concluded that the performance shares measure of total shareholder return was somewhat redundant to the annual bonus plan performance metric that was also based on total shareholder return.

***Perquisites and Other Benefits***

*Perquisites*

We provide certain perquisites to our named executive officers. These officers are eligible to receive reimbursement for club dues, personal excess liability insurance, federal income tax preparation, life insurance policy premiums with respect to cash value life insurance, annual health examination, and tickets to sporting and other entertainment events. We do not provide executive officers with automobiles or automobile allowances or supplemental executive medical benefits or coverage. In addition, we generally do not allow executive officers to use company aircraft for personal use, such as travel to and from vacation destinations. However, spouses (or other family members) occasionally accompany executive officers when executive officers are traveling on company aircraft for business purposes, such as attending an industry business conference at which spouses are invited and expected to attend.

*Other Benefits*

We provide other benefits, including medical, life, dental, and disability insurance in line with competitive market conditions. Our named executive officers are eligible for the same benefit plans provided to our other employees, including our Thrift Plan and insurance and supplemental plans chosen and paid for by employees who desire additional coverage.

Executive officers and other employees whose compensation exceeds certain limits are eligible to participate in non-qualified excess benefit programs whereby those individuals can choose to make larger contributions than allowed under the qualified plan rules and receive correspondingly higher benefits. These plans are described below under Compensation Discussion and Analysis Elements of Executive Compensation Post-Employment Benefits.

***Post-Employment Benefits***

*Pension Plans*

We have a noncontributory defined benefit Pension Plan in which most of our employees, including our named executive officers, are eligible to participate and under which contributions by individual participants are neither required nor permitted. We also have a noncontributory, non-qualified Excess Pension Plan and a non-qualified Supplemental Executive Retirement Plan, or SERP, which provide supplemental pension benefits to certain highly compensated employees, and under which our named executive officers are participants. The Excess Pension Plan and the SERP provide eligible employees with additional retirement savings opportunities that cannot be achieved with tax-qualified plans due to Internal Revenue Code of 1986, as amended (the Internal Revenue Code ), limits on (i) annual compensation that can be taken into account under qualified plans, or (ii) annual benefits that can be provided under qualified plans.

The Pension Plan (supplemented, as necessary, by the Excess Pension Plan) provides a monthly pension at normal retirement equal to 1.6% of the participant s average monthly compensation (based upon the participant s earnings during the three consecutive calendar years during the last 10 years of the participant s credited service, including service with our former parent, affording the highest such average) times the

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participant s years of credited service. The SERP provides an additional benefit equal to .35% times the product of the participant s years of credited service (maximum 35 years) multiplied by the excess of the participant s average monthly compensation over the lesser of 1.25 times the monthly average (without indexing) of the social security wage bases for the 35-year period ending with the year the participant attains social security retirement age, or the monthly average of the social security wage base in effect for the year that the participant retires. For purposes of the SERP, the participant s most highly compensated consecutive 36 months of service are considered, including employment with our former parent and its subsidiaries. The SERP benefit payment is made in a lump sum; an annuity form of benefit payment is not available under the SERP. An executive will become a participant in the SERP as of the date he or she is selected and named in the minutes of the Compensation Committee for inclusion as a participant in the SERP. Compensation for purposes of the Pension Plan, Excess Pension Plan, and SERP includes salary and bonus. Pension benefits are not subject to any deduction for social security or other offset amounts. For more information regarding our named executive officers participation in our pension plans, see the table under the caption Pension Benefits and its related disclosures.

*Nonqualified Deferred Compensation Plans*

*Deferred Compensation Plan*. Our named executive officers are eligible to participate in our Deferred Compensation Plan ( DC Plan ). The DC Plan permits eligible employees to defer a portion of their salary and/or bonus until separation (*i.e*., retirement or termination of employment) or at other designated distribution times provided for in the DC Plan. The DC Plan is a non-qualified deferred compensation arrangement designed to be a top hat plan within the meaning of the Employee Retirement Income Security Act ( ERISA ) and is, therefore, exempt from most of ERISA s requirements relating to pension plans. The DC Plan is not designed to constitute a qualified pension plan under Section 401(a) of the Internal Revenue Code.

Designated eligible employees are intended to constitute a select group of management or highly compensated employees within the meaning of ERISA. Under the DC Plan, each year eligible employees are permitted to elect to defer up to 30% of their salary and/or 50% of their cash bonuses to be earned for services performed during the following year.

Pursuant to the DC Plan, Valero may from time to time make discretionary contributions to participants accounts in such amounts as shall be determined or determinable under a formula and announced to DC Plan participants. For the Chief Executive Officer or the President, any such discretionary contributions would be made upon recommendation by the Compensation Committee and approval of the Board. For certain other executive officers, any such discretionary contributions would be made upon recommendation of the Chief Executive Officer and approval of the Compensation Committee. For any other participant, any such discretionary contributions would be made upon recommendation of the Chief Executive Officer. We have made no discretionary contributions to participants accounts, and currently we have no plans to make any discretionary contributions to participants accounts. We would likely only consider such contributions in the event of a significant, catastrophic economic event (or series of events) that materially impairs the value of participants accounts.

All amounts credited under the DC Plan (other than discretionary credits) are immediately 100 percent vested. Any discretionary credits will vest in accordance with the vesting schedule determined at the time of the grant of discretionary credits. Participant accounts are credited with earnings (or losses) based on investment fund choices made by the participants among available funds selected by Valero s benefits plans administrative committee from time to time.

At the time of their deferral elections, participants may also elect when and over what period of time their deferrals will be distributed. Specifically, participants may elect to have their accounts distributed in a lump

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sum on a specified date in the future, at least five years from the date of the deferral election. Even if a participant has elected a specified distribution date, the participant s DC Plan account will be distributed upon the participant s death, retirement, or other termination of employment. Participants may, at the time of their deferral elections, choose to have their accounts distributed as soon as reasonably practical following retirement or other termination, or on the January 1st following the date of retirement or termination.

Participants may also elect to have their accounts distributed in one lump sum payment or in five, 10 or 15 year installments upon retirement, and in a lump sum or five annual installments upon other termination. Upon a participant s death, the participant s beneficiary will receive the participant s DC Plan account in one lump-sum payment within 90 days following the participant s death. Participants may also receive a portion of their DC Plan account necessary to satisfy an unforeseeable emergency (as defined in the DC Plan). Upon a change in control (as defined in the DC Plan) of Valero, all DC Plan accounts are immediately vested in full. However, distributions are not accelerated and, instead, are made in accordance with the DC Plan s normal distribution provisions.

As a nonqualified deferred compensation arrangement, the DC Plan is subject to Internal Revenue Code Section 409A and its regulations. We intend to administer and interpret the DC Plan in a manner consistent with such Internal Revenue Code section and regulations.

*Excess Thrift Plan*. Our Excess Thrift Plan provides benefits to our employees whose annual additions to our Thrift Plan are subject to the limitations on such annual additions as provided under Section 415 of the Internal Revenue Code, and/or who are constrained from making maximum contributions under the Thrift Plan by Section 401(a)(17) of the Internal Revenue Code, which limits the amount of an employee s annual compensation which may be taken into account under that plan. Two separate components comprise the Excess Thrift Plan: (i) an excess benefit plan as defined under Section 3(36) of ERISA; and (ii) a plan that is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. Each component of the Excess Thrift Plan consists of a separate plan for purposes of Title I of ERISA.

Information regarding contributions by Valero and each of our named executive officers under our non-qualified defined contribution and other deferred compensation plans during the year ended December 31, 2008, is stated in this proxy statement in the table under the caption Executive Compensation Nonqualified Deferred Compensation.

*Severance Arrangements*

We have entered into change of control agreements with each of the named executive officers. These agreements are intended to assure the continued availability of these executive officers in the event of certain transactions culminating in a change of control of Valero. If a change of control (as defined in the agreements) occurs during the term of an agreement, then the agreement becomes operative for a fixed three-year period. The agreements provide generally that the executive officer s terms and conditions of employment (including position, location, compensation and benefits) will not be adversely changed during the three-year period after a change of control.

Following a change of control, particular payments under the agreements are triggered commensurate with the occurrence of any of the following: (i) termination of employment by Valero other than for cause (as defined in the agreement) or disability; (ii) termination by the executive for good reason (as defined in the agreements); (iii) termination by the executive other than for good reason ; and (iv) termination of employment because of death or disability. These triggers were designed to ensure the continued availability of the executive officers following a change of control, and to compensate the executive officers at appropriate levels if their employment is unfairly or prematurely terminated during the applicable term following a

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change of control. For more information regarding payments that may be made under our severance arrangements, see our disclosures below under the caption Executive Compensation Potential Payments upon Termination or Change of Control.

## IMPACT OF ACCOUNTING AND TAX TREATMENTS

### *Accounting Treatment*

We recognize in our financial statements the costs of equity awards over the period in which an employee is required to provide service in exchange for the awards. The cost of such awards is measured at fair value on the date of grant and we use the Black-Scholes option pricing model to determine the grant date present value of stock options.

### *Tax Treatment*

Under Section 162(m) of the Internal Revenue Code, publicly held corporations may not take a tax deduction for compensation in excess of $1 million paid to the Chief Executive Officer or the other four most highly compensated executive officers unless that compensation meets the Internal Revenue Code s definition of performance based compensation. Section 162(m) allows a deduction for compensation to a specified executive that exceeds $1 million only if it is paid (i) solely upon attainment of one or more performance goals, (ii) pursuant to a qualifying performance-based compensation plan adopted by the Compensation Committee, and (iii) the material terms, including the performance goals, of such plan are approved by the stockholders before payment of the compensation.

The Compensation Committee considers deductibility under Section 162(m) with respect to compensation arrangements for executive officers. The Committee believes that it is in our best interests for the Committee to retain its flexibility and discretion to make compensation awards to foster achievement of performance goals established by the Committee and other corporate goals the Committee deems important to our success, such as encouraging employee retention, rewarding achievement of nonquantifiable goals and achieving progress with specific projects.

We believe that our outstanding stock options and performance share grants qualify as performance-based compensation and are not subject to any deductibility limitations under Section 162(m). Grants of restricted stock or other equity-based awards that are not subject to specific quantitative performance measures will likely not qualify as performance based compensation and, in such event, would be subject to Section 162(m) deduction restrictions.

## COMPENSATION-RELATED POLICIES

### *Say-On-Pay Policy*

In 2009, our Board considered and approved a say-on-pay policy. The policy provides that at each annual meeting of stockholders, starting with the 2010 meeting, stockholders will be provided the opportunity to vote on an advisory resolution to ratify the compensation of Valero s named executive officers as set forth in the Summary Compensation Table of the proxy statement. The vote will allow stockholders to express their opinions regarding the decisions of the Compensation Committee on the prior year s annual compensation to the named executive officers. The stockholder vote will be advisory in nature, which means that it will not affect any compensation already paid or awarded to any named executive officer and will not be binding on the Compensation Committee, but will be considered by the Compensation Committee in determining annual compensation for the named executive officers in subsequent periods. The full text of the policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

***Executive Compensation Clawback Policy***

In 2009, our Board considered and approved an executive compensation policy entitled *Policy on Executive Compensation in Restatement Situations*, a so-called clawback policy. The policy provides that in the event of a material restatement of Valero s financial results, the Board, or the appropriate committee thereof, will review all bonuses and other incentive and equity compensation awarded to Valero s executive officers. If such bonuses and other incentive and equity compensation would have been lower had they been calculated based on such restated results, the Board, or the appropriate committee thereof, will, to the extent permitted by governing law and as appropriate under the circumstances, seek to recover for the benefit of Valero all or a portion of such bonuses and incentive and equity compensation awarded to executive officers whose fraud or misconduct caused or partially caused such restatement, as determined by the Board, or the appropriate committee thereof. In determining whether to seek recovery, the Board, or the appropriate committee thereof, shall take into account such considerations as it deems appropriate, including governing law and whether the assertion of a claim may prejudice the interests of Valero in any related proceeding or investigation. The full text of the policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

***Compensation Consultant Disclosure Policy***

In 2009, our Board considered and approved a compensation consultant disclosure policy. The policy provides that beginning in 2010, we will make additional disclosures pertaining to compensation consultants in our proxy statements for annual meetings of stockholders. For any compensation consultant retained by the Compensation Committee to provide compensation advice with respect to the compensation disclosed in the Summary Compensation Table in the proxy statement, we will disclose (i) the total fees paid annually to the consultant for compensation-related services and non-compensation-related services, (ii) a description of any non-compensation-related services provided by the consultant, and (iii) any services that the consultant has provided to senior executives of Valero and the nature of those services. The full text of the policy is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

***Stock Ownership Guidelines***

Our Board, the Compensation Committee, and our executive officers recognize that ownership of Common Stock is an effective means by which to align the interests of our directors and executive officers with those of our stockholders. We have long emphasized the importance of stock ownership among our executive officers and directors. Our stock ownership and retention guidelines for our directors and officers, as approved by the Compensation Committee and our Board, are set forth below.

*Non-Employee Director Stock Ownership Guidelines.* Non-employee directors are expected to acquire and hold during their service shares of our Common Stock equal in value to at least three times the annual cash retainer paid to our directors. Directors have five years from their initial election to the Board to meet the target stock ownership guideline, and they are expected to continuously own sufficient shares to meet the guideline once attained.

*Executive Stock Ownership Guidelines.* Stock ownership guidelines for our officers are as follows:

| Officer Position | Value of Shares Owned |
|---|---|
| Chief Executive Officer | 5x Base Salary |
| President | 3x Base Salary |
| Executive Vice Presidents | 2x Base Salary |
| Senior Vice Presidents | 1x Base Salary |
| Vice Presidents | 1x Base Salary |

Our officers are expected to meet the applicable guideline within five years and are expected to continuously own sufficient shares to meet the guideline once attained. The full text of our stock ownership and retention guidelines is available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section.

***Insider Trading and Speculation in Valero Stock***

We have established policies prohibiting our officers, directors, and employees from purchasing or selling Valero securities while in possession of material, nonpublic information, or otherwise using such information for their personal benefit or in any manner that would violate applicable laws and regulations. In addition, our policies prohibit our officers, directors, and employees from speculating in our stock, which includes short selling (profiting if the market price of our stock decreases), buying or selling publicly traded options (including writing covered calls), hedging, or any other type of derivative arrangement that has a similar economic effect.

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## EXECUTIVE COMPENSATION

The tables in the following sections of this proxy statement provide information required by the SEC regarding compensation paid to or earned by our named executive officers for the year ended December 31, 2009. We have used captions and headings in these tables in accordance with the SEC regulations requiring these disclosures. The footnotes to these tables provide important information to explain the values presented in the tables, and are an important part of our disclosures.