VALERO ENERGY CORP/TX
Form DEF 14A
March 19, 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
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ 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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þ No fee required.
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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, Disclosure of Political Contributions/Trade Associations ;

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

(8) 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
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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 three stockholder proposals (Proposals No. 5, No. 6, and No. 7) 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 - 7.

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.

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
BlackRock, Inc. 40 East 52nd Street New York NY 10022	33,352,582(1)	5.91%
AXA Financial, Inc. 1290 Avenue of the Americas New York, NY 10104	32,109,811(2)	5.70%

(1) BlackRock, Inc. filed with the SEC an amended Schedule 13G on January 20, 2010, reporting that it or certain of its affiliates beneficially owned in the aggregate 33,352,582 shares, and that it had sole voting power and sole dispositive power with respect to 33,352,582 shares.

(2) 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, 20