VALERO ENERGY CORP/TX
Form PRE 14A
March 01, 2011

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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)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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VALERO ENERGY CORPORATION
NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS

The Board of Directors has determined that the 2011 Annual Meeting of Stockholders of Valero Energy Corporation will be held on Thursday, April 28, 2011, 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 four Class II directors to serve until the 2014 annual meeting of stockholders;
2. Approve amendment of our Certificate of Incorporation to eliminate classified board;
3. Ratify appointment of KPMG LLP as independent auditors;
4. Approve the 2011 Omnibus Stock Incentive Plan;
5. Approve the 2010 compensation of the named executive officers;
6. Recommend the frequency of stockholder votes on executive compensation;
7. Vote on a stockholder proposal entitled, Disclosure of Political Contributions ;
8. Vote on a stockholder proposal entitled, Review Political Contributions ;
9. Vote on a stockholder proposal entitled, Report on Steps Taken to Reduce Risk of Accidents ; and
10. 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 18, 2011

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VALERO ENERGY CORPORATION
PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS

Our Board is soliciting proxies to be voted at the 2011 Annual Meeting of Stockholders on April 28, 2011 (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. Board means our board of directors.

We are mailing the Notice of Internet Availability of Proxy Materials (Notice) to stockholders on or about March 18, 2011. On this date, you will have the ability to access all of our proxy materials on the website referenced in the Notice.

Record Date, Shares Outstanding, Quorum

Holders of record of our common stock, $0.01 par value (Common Stock), at the close of business on March 1, 2011 (the record date) are entitled to vote on the matters presented at the Annual Meeting. On the record date, 568,971,156 shares of Common Stock were issued and outstanding and entitled to one vote per share. 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; Revocability of Proxies

If you attend the Annual Meeting and plan to vote in person, we will give you 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, however, 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.

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.

Broker Non-Votes

Brokers holding shares must vote according to specific instructions they receive from the beneficial owners of the stock. If the broker does not receive specific instructions, in some cases the broker may vote the shares in the broker s 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 the 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 auditor (Proposal No. 3) is deemed to be a routine matter under NYSE rules. A broker or other nominee generally may vote uninstructed shares on routine matters, and therefore no broker non-votes are expected to occur with Proposal No. 3.

Proposals 1, 2, and 4 through 9 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 are expected to occur on these proposals.

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 to vote those shares. Shares for which instructions are not received may be voted by the trustee per the terms of the plan.

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 2010, our Board held eight meetings and the standing Board committees held 22 meetings in the aggregate. No member of the Board attended less than 75 percent 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 2010 annual stockholders meeting.

INDEPENDENT DIRECTORS

The Board presently has one member from our management, William R. Klesse, and 10 non-management directors. During 2010, nine non-management directors served on the Board. The Board determined that each of its non-management directors who served at any time during 2010 met the independence requirements of the NYSE listing standards as set forth in the NYSE Listed Company Manual. Those independent directors were 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, Mr. Klesse is not an independent director under the NYSE s listing standards. Irl F. Engelhardt retired from the Board effective December 31, 2010. Non-management directors Randall J. Weisenburger and Rayford Wilkins, Jr. were elected to the Board on January 25, 2011.

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.

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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, 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 regarding its directors. These standards are published in Article I of our *Corporate Governance Guidelines* and are available on our website at www.valero.com under the Corporate Governance tab in the Investor Relations section. Under NYSE s 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 percent of the organization s gross revenue in any of the last three years;

- 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

In 2010, the Board had standing Audit, Compensation, Executive, Finance, and Nominating/Governance Committees. Committee 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 2010 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 in 2010 were Ruben M. Escobedo (Chairman), Ronald K. Calgaard, Irl F. Engelhardt, Susan Kaufman Purcell, and Stephen M. Waters. The Audit Committee met six times in 2010. The Report of the Audit Committee for Fiscal Year 2010 appears in this proxy statement following the disclosures related to Proposal No. 3. Randall J. Weisenburger was appointed to the committee on February 24, 2011.

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.

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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 2010, members of the Compensation Committee were Bob Marbut (Chairman), Jerry D. Choate, Donald L. Nickles, and Robert A. Profusek. The Compensation Committee met nine times in 2010. The Compensation Committee Report for fiscal year 2010 appears in this proxy statement immediately preceding Compensation Discussion and Analysis. Rayford Wilkins, Jr. was appointed to the committee on February 24, 2011.

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.

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 2010, the members of the Nominating/Governance Committee were Jerry D. Choate (Chairman), Ronald K. Calgaard, Donald L. Nickles, and Robert A. Profusek. The Committee met four times in 2010. Rayford Wilkins, Jr. was appointed to the committee on February 24, 2011.

The Nominating/Governance Committee recommended Ronald K. Calgaard, Stephen M. Waters, Randall J. Weisenburger, and Rayford Wilkins, Jr. to the Board as nominees for election as Class II 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, and recommended assignments for the Board s committees. 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 Board committee assignments.

Effective February 24, 2011, the responsibilities of the committee were expanded, and the name of the committee was changed to the Nominating/Governance and Public Policy Committee. In addition to the committee s duties stated above, the committee will also (i) assist the Board in identifying, evaluating, and monitoring public policy trends and social and political issues that could impact our business activities and performance, and (ii) consider and make recommendations for our strategies relating to corporate responsibility, contributions, and reputation management. As used in this proxy statement, the moniker Nominating/Governance Committee refers to, as the context may require (i) the Nominating/Governance Committee as constituted prior to its name change and expansion of duties, or (ii) the Nominating/Governance and Public Policy Committee as presently constituted.

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Executive Committee

The Executive Committee exercises the Board s power and authority during intervals between meetings of the Board. With limited exceptions specified in our 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, Ruben M. Escobedo, and Bob Marbut. Mr. Engelhardt was also a member of the committee in 2010. The Executive Committee did not meet in 2010.

Finance Committee

The Board had a Finance Committee in 2010. The Finance Committee reviewed and monitored 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 2010, the members of the Finance Committee were Irl F. Engelhardt (Chairman), Ruben M. Escobedo, Bob Marbut, Susan Kaufman Purcell, and Stephen M. Waters. The Finance Committee met three times in 2010. The Board has determined that it will not have a separately appointed Finance Committee in 2011.

SELECTION OF DIRECTOR NOMINEES

The Nominating/Governance Committee solicits recommendations for Board candidates from a number of sources, including our directors, our 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.

Evaluation of Director Candidates

The Nominating/Governance Committee is charged with assessing the skills and characteristics that candidates for election to the Board should possess and with determining 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.

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Based on this initial evaluation, the Committee will determine whether to interview a proposed 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. 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:

- lead the Board in productive, strategic planning,
- determine necessary and appropriate agenda items for meetings of the Board with input from the Lead Director and Board committee chairpersons, and
- 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 our other directors are fully independent. Each of the Board s committees (except for the Executive Committee, which meets infrequently) is chaired by an independent director.

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 2011. He also served as Lead Director during 2010.

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 full 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

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consideration, including operational, financial, legal, regulatory, strategic, and reputational risks. The full Board (or the appropriate Board committee, in the case of risks that are under the purview of a particular committee) receives reports from management to enable the Board (or committee) to assess Valero s risk identification, risk management, and risk mitigation strategies. When a report is vetted at the committee level, the chairperson of that committee thereafter 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.

One of the Audit Committee s responsibilities, as set forth in its charter, is to discuss with management our major financial risk exposures and the steps management has taken to monitor and control those exposures, including our risk assessment and risk management policies. In this regard, our 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. The Finance Committee also shared certain responsibilities with respect to risk oversight. The Finance Committee reviewed with management our financial arrangements, capital structure, and access to capital markets. It also reviewed allocation policies with respect to our pension assets, as well as the performance of investments in our pension and other benefit plans. (These responsibilities will be fulfilled by the full Board on a going-forward basis.) The Board s standing committee s regularly report to the full Board.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

(Item 1 on the Proxy Card)

Our Board is divided into three classes for purposes of election. Four Class II directors will be elected at the Annual Meeting to serve a three-year term expiring at the 2014 annual meeting of stockholders (subject to the result of the stockholder vote on Proposal No. 2). Nominees for Class II directors are Ronald K. Calgaard, Stephen M. Waters, Randall J. Weisenburger, and Rayford Wilkins, Jr. 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.

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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 2012 and 2013. 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. There is no arrangement or understanding between any director or any other person pursuant to which the director was or is to be selected a director or nominee.

	Executive Officer or Director Since (1)	*Age as of 12/31/10*	*Director Class (2)*
Nominees			
Ronald K. Calgaard, *Director*	1996	73	II
Stephen M. Waters, *Director*	2008	64	II
Randall J. Weisenburger, *Director*	2011	52	(3)
Rayford Wilkins, Jr., *Director*	2011	59	(3)
Other Directors			
Ruben M. Escobedo, *Director*	1994	73	I
Bob Marbut, *Director*	2001	75	I
Robert A. Profusek, *Director*	2005	60	I
Jerry D. Choate, *Director*	1999	72	III
William R. Klesse, *Chairman of the Board, Chief Executive Officer, and President*	2001	64	III
Donald L. Nickles, *Director*	2005	62	III
Susan Kaufman Purcell, *Director*	1994	68	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 II directors will expire at the 2014 Annual Meeting. The terms of office of the Class I directors will expire at the 2013 Annual Meeting, and the terms of office of the Class III directors will expire at the 2012 Annual Meeting.

(3) Messrs. Weisenburger and Wilkins will be assigned to Class II at the Annual Meeting.

Nominees

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.

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

Mr. Weisenburger has served as Omnicom Group Inc. s Executive Vice President and Chief Financial Officer since joining that company in 1998. Prior to joining Omnicom, he was a founding member of Wasserstein Perella and a former member of the First Boston Corporation. While at Wasserstein Perella, Mr. Weisenburger specialized in private equity investing and leveraged acquisitions, and in 1993, he became President and CEO of the firm s private equity subsidiary. His other corporate board service includes Carnival Corporation and Carnival PLC, and he is also a member of the Board of Overseers for the Wharton School of Business at the University of Pennsylvania. Mr. Weisenburger s pertinent experience, qualifications, attributes, and skills include: financial literacy and expertise, capital markets expertise, managerial experience he has attained serving as an executive officer of other public companies, and the experience he has attained from service on other public company boards.

Mr. Wilkins serves as CEO of Diversified Businesses of AT&T, where he responsible for international investments, AT&T Interactive, AT&T Advertising Solutions, customer information services and the consumer wireless initiative in India. Mr. Wilkins has held several other leadership positions at AT&T and its predecessor companies, including Group President and CEO of SBC Enterprise Business Services and President and CEO of SBC Pacific Bell. He also serves on the board of América Móvil, and is on the boards of The Tiger Woods Foundation, the National Urban League, and the Advisory Council of the McCombs School of Business at the University of Texas at Austin. Mr. Wilkins s pertinent experience, qualifications, attributes, and skills include: managerial experience he has attained serving as an executive officer of other public companies, international business acumen he has attained from his responsibilities as executive officer and director for international business concerns, and the experience he has attained from service on other public company boards.

Other Directors

Mr. Choate retired from Allstate Corporation, an insurance company, in 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.

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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. 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 Ultramar Diamond Shamrock Corporation (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 since 2007.

Mr. Marbut is director and Chairman of RISCO U.S. (since April 2010) and, from 2004 through March 2010, was Executive Chairman of Electronics Line 3000 Ltd., a provider of wireless security with remote management solutions. Concurrently, he was founder and CEO of SECTecGLOBAL, Inc. from 2004 through 2006, and co-founder, Chairman, and CEO of Argyle Security, Inc. and its predecessor company Argyle Security Acquisition Corporation, from 2005 through January 2010. Mr. Marbut is a director of Tupperware Brands Corporation, and during the past five years previously served on the boards of Hearst-Argyle Television, Inc.; Argyle Security, Inc.; and Electronics Line 3000 Ltd. He served as a director of UDS since 1996, and has served as a director of Valero since Valero s acquisition of 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.

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.

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Mr. Profusek is a partner, and heads the mergers and acquisitions division, 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, an NYSE-listed components manufacturer. 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 current service on another public company board and prior service as a director of two other NYSE-listed companies; 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. 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.

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, Compensation of Directors, and Certain Relationships and Related Transactions.

IDENTIFICATION OF EXECUTIVE OFFICERS

The following are Valero s executive officers. There is no arrangement or understanding between any executive officer listed below or any other person pursuant to which the executive officer was or is to be selected as an officer.

	Officer Since (1)	*Age as of 12/31/10*
William R. Klesse, *Chief Executive Officer and President*	2001	64
Jean Bernier, *Executive Vice President-Corporate Communications, Information Services and Supply Chain Management*	2010	54
Kimberly S. Bowers, *Executive Vice President and General Counsel*	2003	46
Michael S. Ciskowski, *Executive Vice President and Chief Financial Officer*	1998	53
S. Eugene Edwards, *Executive Vice President and Chief Development Officer*	1998	54
Joseph W. Gorder, *Executive Vice President and Chief Commercial Officer*	2003	53

Mr. Klesse (Mr. Klesse s biographical information is stated above under the caption Information Concerning Nominees and Other Directors).

Mr. Bernier was elected Executive Vice President of Valero on November 3, 2010, and has remained, since 1999, as President of Ultramar Ltd., a subsidiary of Valero engaged in the refining, distribution and marketing of petroleum products in Eastern Canada. Mr. Bernier joined Ultramar Ltd. in 1996 as Director, Motorist Development, and was elected Vice President, Retail Operations in 1998. Prior to joining Ultramar Ltd., Mr. Bernier served in a variety of senior management positions at Provigo, Inc.

Ms. Bowers was elected Executive Vice President and General Counsel in October 2008. She previously served as Senior Vice President and General Counsel of the Company since April 2006. Before that, she was Valero s Vice President Legal Services from 2003 to 2006. Ms. Bowers joined Valero s legal department in 1997.

Mr. Ciskowski was elected Executive Vice President and Chief Financial Officer in August 2003. Before that, he served as Executive Vice President Corporate Development since April 2003, and Senior Vice President in charge of business and corporate development since 2001.

Mr. Edwards was elected Executive Vice President and Chief Development Officer in January 2011. He previously served as Executive Vice President Corporate Development and Strategic Planning beginning in December 2005. Starting in 2001, he served as Senior Vice President with responsibilities for product supply, trading, and wholesale marketing. He has held several positions in the company with responsibility for planning and economics, business development, risk management, and marketing.

Mr. Gorder was elected Executive Vice President and Chief Commercial Officer in January 2011. He previously served as Executive Vice President Marketing and Supply beginning in December 2005. Starting in August 2003, he served as Senior Vice President Corporate Development. Prior to that he held several positions with Valero and UDS with responsibilities for corporate development and marketing.

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BENEFICIAL OWNERSHIP OF VALERO SECURITIES

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table describes 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, 2011. 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	43,719,985(1)	7.72%

(1) BlackRock, Inc. filed with the SEC an amended Schedule 13G on January 21, 2011, reporting that it or certain of its affiliates beneficially owned in the aggregate 43,719,985 shares, and that it had sole voting power and sole dispositive power with respect to 43,719,985 shares.

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SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table presents information as of February 1, 2011, 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 (excluding Mr. Marcogliese), 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	95,351	87,859	183,210	0.03%
Ronald K. Calgaard	37,729	3,000	40,729	*
Jerry D. Choate	59,559	33,000	92,559	*
Michael S. Ciskowski	242,435	231,143	473,578	0.08%
S. Eugene Edwards	89,764	67,210	156,974	0.03%
Ruben M. Escobedo	26,740	0	26,740	*
Joseph W. Gorder	101,675	78,351	180,026	0.03%
William R. Klesse	827,925	677,375	1,505,300	0.26%
Bob Marbut	57,168	60,060	117,228	*
Donald L. Nickles	19,453	11,000	30,453	*
Robert A. Profusek	19,314	11,000	30,314	*
Susan Kaufman Purcell	20,800	3,000	23,800	*
Stephen M. Waters	17,923	10,000	27,923	*
Randall J. Weisenburger	6,205	0	6,205	*
Rayford Wilkins, Jr.	6,205	0	6,205	*
Directors and executive officers as a group (16 persons)	1,673,864	1,350,895	3,024,759	*

* 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, 2011, 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, 2011. 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, 2010, all Section 16(a) reports applicable to our executive officers, directors and greater than 10 percent stockholders were timely filed.

COMPENSATION CONSULTANT DISCLOSURES

In 2010, the Compensation Committee retained Towers Watson and Pay Governance LLC as independent compensation consultants. In their roles as advisors to the Compensation Committee, Towers Watson and Pay Governance were retained directly by the Committee, which, in its sole discretion, has the authority to select, retain, and terminate its relationship with the firms. In 2010, Towers Watson and Pay Governance provided the Committee with objective and expert analyses, independent advice, and information with respect to executive and director compensation. Towers Watson received $258,389, and Pay Governance received $267,467 in professional fees for their executive and director compensation services to the Committee during 2010. Towers Watson and Pay Governance did not provide other consulting services to the Committee, to Valero, or to any senior executives of Valero in 2010.

Pay Governance, the Compensation Committee s current advisor, is an independent executive compensation firm formed by selected retired partners from Towers Watson s executive compensation practice. Pay Governance is wholly independent of and has no relationship to Towers Watson. The partners and employees of Pay Governance have not received compensation, referral fees, or financial assistance from Towers Watson in the start-up or on-going operation of Pay Governance. Pay Governance does not provide any type of consulting service other than services dealing with executive compensation and the compensation of non-employee directors.

During 2010, Towers Watson s and Pay Governance 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 our 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, our annual incentive bonus program with respect to both financial and operational performance metrics;

- Assessment of, and recommendation of enhancements to, our long-term incentive program strategy, including the appropriate mix of equity incentive vehicles, performance measures and measurement techniques, and determination of competitive equity grant guidelines consistent with our overall pay philosophy; and

- Updates on trends and developments in executive compensation, new regulatory issues, and best practices.

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RISK ASSESSMENT OF COMPENSATION PROGRAMS

We believe that, viewed holistically, our incentive compensation programs effectively balance risk and reward. In our risk assessment, we consider both the annual incentive bonus plan for management as well as long-term incentives that are awarded under our stock incentive plan. We also consider 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,
- 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).

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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. Rayford Wilkins, Jr. was appointed to the Compensation Committee in 2011, and is therefore not listed below the Compensation Committee Report pertaining to the fiscal year ended December 31, 2010.

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
Donald L. Nickles
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.

Named Executive Officers. In accordance with SEC rules, the following persons are referred to as our named executive officers in this proxy statement: (i) the individuals serving as our principal executive officer (William R. Klesse, Chief Executive Officer) and principal financial officer (Michael S. Ciskowski, Chief Financial Officer) during the last completed fiscal year; (ii) our three other most highly compensated executive officers who were serving as executive officers at the end of the last completed fiscal year (Kimberly S. Bowers, Joseph W. Gorder, and S. Eugene Edwards); and (iii) one additional individual who would have been one of our three most highly compensated executive officers but for the fact that he was not serving as an executive officer on December 31, 2010 (Richard J. Marcogliese).

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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 2010, the Compensation Committee retained Towers Watson and Pay Governance LLC as independent compensation consultants for executive and director compensation matters. The nature and scope of the consultants services 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 Watson 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 Watson Compensation Data Bank

The Towers Watson Compensation Data Bank (Data Bank) includes over 800 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. 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 Watson Compensation Data Bank, consists of compensation information and analyses of Towers Watson that includes compensation practices and available data for the following 13 companies that significantly participate in the domestic oil and gas industry:

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

We use 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.
Chevron Corporation
ConocoPhillips
CVR Energy Inc.
Exxon Mobil Corporation
Frontier Oil Corporation
Hess Corporation
Holly Corporation
Marathon Oil Corporation
Murphy Oil Corporation
Sunoco, Inc.
Tesoro Corporation
Western Refining Inc.

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, 2010. 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 with assistance from Towers Watson and Pay Governance. 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.

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.

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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 Watson and Pay Governance. 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 timing of our more significant compensation events in 2010:

First Quarter:

- determined annual incentive bonus earned for preceding fiscal year,
- reviewed and certified financial performance for performance shares granted in prior years,
- established financial performance objectives, operational and strategic performance objectives, and individual goals and objectives for purposes of the 2010 annual incentive bonus plan.

Third Quarter:

- established target levels for annual incentive bonus and long-term incentive compensation for executive officers.

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,
- reviewed and approved long-term performance goals for performance shares granted in the fourth quarter.

ELEMENTS OF EXECUTIVE COMPENSATION

General

Our executive compensation programs consist of the following material elements:

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

We chose these elements 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, and to provide a foundation upon which incentive opportunities and benefit levels are established. Our annual incentive bonus is 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

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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 target awards for a particular fiscal year.

Our Compensation Committee s general philosophy for 2010 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 2010, 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 both 2009 and 2010, the Compensation Committee directed changes in our strategy with respect to both the annual incentive bonus program and long-term incentive compensation. The changes were made following a wide-ranging review beginning in 2009 of the annual incentive bonus compensation program which resulted in changes to the program s performance metrics and performance measurement techniques, including the introduction of annual operational and strategic measures. In 2010, the Committee further modified the annual incentive bonus program by adding a third measurement area, individual performance and objectives, and eliminating the total shareholder return metric from the set of financial performance measures since it is the performance metric used in our performance shares program. Our annual incentive bonus program is described below under the caption Annual Incentive Bonus.

In 2010, the long-term incentive compensation program was also modified to change the mix and weighting of the types of long-term incentive compensation, including the introduction of a new performance share program. In 2009, an executive s total long-term incentive compensation was composed of the following: 50 percent (in expected value) of stock options, and 50 percent (in expected value) in the form of restricted stock. In 2010, the mix of long-term incentive awards was changed to include 50 percent (in terms of share count) in the form of performance shares, 25 percent (in terms of share count) in the form of stock options, and 25 percent (in terms of share count) in the form of restricted stock.

For 2010, we paid annual incentive bonuses above the 65th percentile target for our named executive officers, reflecting Valero s performance in 2010, which was reflective of reducing costs, improving operations, and a recovering refining industry in 2010. As described below under the caption Annual Incentive Bonus, Valero s performance for 2010 resulted in a bonus payout of 110.74% of target.

Long-term incentive grants awarded in 2010 to our Chief Executive Officer were at the 65th percentile target. Long-term incentive grants awarded in 2010 to our other named executive officers, excluding Mr. Marcogliese, ranged from 57% of the 65th percentile target to 134% of the 65th percentile target (Mr. Marcogliese retired from Valero in 2010 and did not receive long-term incentive awards in 2010). Because the nature of long-term compensation is prospective and forward looking, it is difficult to ascertain whether the actual gains or rewards realized by our executives from long-term incentive grants will be less than, equal to, or exceed the 65th percentile target, as such results are driven by the future performance of Valero.

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Relative Size of Major Compensation Elements

When 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 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 bonus 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 2010 for each of our named executive officers:

	Percentage of Total Target Direct Compensation		
Name	**Base Salary**	**Annual Incentive Bonus**	**Long-Term Incentives**
William R. Klesse	13%	19%	68%
Michael S. Ciskowski	17%	21%	62%
Kimberly S. Bowers	28%	22%	50%
Joseph W. Gorder	28%	22%	50%
S. Eugene Edwards	28%	22%	50%
Richard J. Marcogliese	17%	21%	62%

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 recommendations from our Chief Executive Officer. Individual performance and objectives are specific to each officer position.

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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 Watson 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.

In 2010, the base salaries of our named executive officers were adjusted to the following levels:

Name	Base Salary 12/31/2009	Base Salary 12/31/2010
William R. Klesse	$1,500,000	$1,500,000
Michael S. Ciskowski	$ 750,000	$ 750,000
Kimberly S. Bowers	$ 494,000	$ 515,000
Joseph W. Gorder	$ 460,000	$ 469,000
S. Eugene Edwards	$ 430,000	$ 450,000
Richard J. Marcogliese	$ 955,000	$ 955,000

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 three of our named executive officers were increased for fiscal year 2011 to remain competitive in our market. Effective January 1, 2011, the annual base salary for each of Ms. Bowers, Mr. Gorder, and Mr. Edwards was increased to $535,000, commensurate with new roles and responsibilities assigned to each executive for 2011.

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Annual Incentive Bonus

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

- the position of the named executive officer, which is used to determine a targeted percentage of 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 (for certain executives) to 150% of base salary (for our CEO);
- Valero s realization of quantitative financial performance goals and operational and strategic performance measures, and realization of qualitative individual goals and objectives of Valero 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, 2010:

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	150%	19%
Michael S. Ciskowski	125%	21%
Kimberly S. Bowers	80%	22%
Joseph W. Gorder	80%	22%
Sidney E. Edwards	80%	22%
Richard J. Marcogliese	125%	21%

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, 150% times $1,500,000 results in a bonus target of $2,250,000). 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 2010, the annual incentive bonus program s performance measures included three segments: *Financial Performance Measures*, weighted as 40% of the total bonus opportunity, *Operational and Strategic Performance Measures*, weighted as 40% of the total bonus opportunity, and *Individual Goals and Objectives Measures*, weighted as 20% of the total bonus opportunity. (Each segment is discussed individually in the sections that follow.) *Financial Performance Measures* and *Operational and Strategic Performance Measures* have a range of performance scores from 0% to 225% before application of the 40% weighting. The *Individual Goals and Objectives Measures* segment has a range of performance scores from 0% to 100% before application of the 20% weighting. The results of the segment scores after the application of weightings produce a total performance score and bonus opportunity ranging from 0% to 200% of the bonus target amount.

Each performance segment is weighted separately. Thus, if in any year Valero s performance score under the *Financial Performance Measures* segment were 68%, and if its performance score under the *Operational and Strategic Measures* segment were 110%, and its performance score under the *Individual Goals and Objectives Measures* segment were 100%, then the final, total performance score of Valero for that fiscal year s bonus program would be 91.2% (representing the sum of 68% times 40%, plus 110% times 40%, plus 100% times 20%). Continuing with the example of Mr. Klesse above, his bonus payment for the hypothetical year would be equal to $2,052,000 (representing his annual incentive bonus target of $2,250,000 times 91.2%).

Financial Performance Measures

The *Financial Performance Measures* for our annual incentive bonus program are the following. These are measured against target levels pre-established by the Compensation Committee in the first quarter of the fiscal year.

- Valero s earnings per share, or EPS, compared to threshold, target, and maximum EPS performance levels approved by the Compensation Committee; 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, 2010, as approved by the Compensation Committee.

We believe that the measures appropriately reflect our business planning process and corporate financial philosophy regarding financial performance measurement. We believe that the bonus program should measure both the quantity of earnings as well as the quality of earnings. 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.

After completion of the fiscal year, each of the *Financial Performance Measures* is measured against Valero s actual performance, with each metric being weighted equally as one-half of the final *Financial Performance Measures* score. For the EPS performance measure, the target percentage of base salary is subject to adjustment, upward or downward, based upon whether our EPS exceeds or falls short of the target EPS. 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 2010 program, the Compensation Committee established the following targets: EPS of $1.40 (continuing operations), and ROI at the 50th percentile of our ROI Peer Group ranking. Actual EPS performance of $1.62 (continuing operations) achieved a payout level of 130.18 percent of target. Actual ROI performance at the 30.7th percentile achieved a payout level of 38.81 percent of target. For 2010, the two equally weighted measures of this segment generated a bonus performance score of 33.80 percent of the target bonus amounts (*i.e.*, the sum of 130.18% and 38.81%, divided by two, and multiplied by 40%).

Operational and Strategic Performance Measures

The *Operational and Strategic Measures* for our annual incentive bonus program are the following. These are measured against target levels pre-established by the Compensation Committee in the first quarter of the fiscal year.

- 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).

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We believe that these measures appropriately reflect key business elements of Valero. We believe that the bonus program should measure management s execution of key operational and strategic measures. After completion of the fiscal year, each of the *Operational and Strategic Performance Measures* is measured against Valero s actual performance in these areas, with each metric being weighted equally as one-third of the final *Operational and Strategic Performance Measures* score.

For the 2010 program, the Compensation Committee established the following performance targets: MA at second quartile performance based on the industry standard Solomon survey, and CM&EC of $92.6 million. Actual MA performance was at third quartile performance and achieved a payout level of 56.25 percent of target. Actual CM&EC of $225 million achieved 225 percent of target.

With respect to HS&E metrics for 2010, the Compensation Committee established the targets detailed in the table below. Valero s actual HS&E performance was 145.77 percent of target.

	Refineries	Renewables	Logistics	Retail
Recordable Injury Rate				
Target	0.80	3.50	1.08	3.70
Actual	0.85	3.44	1.39	3.67
Environmental Scorecard Incidents				
Target	320	60	n/a	n/a
Actual	241	34	n/a	n/a
Reliability Incident Rate				
Target	1.20	n/a	n/a	n/a
Actual	1.29	n/a	n/a	n/a
API Process Safety Incidents Rate				
Target	0.18	0.55	n/a	n/a
Actual	0.16	0.13	n/a	n/a
HSE Audit Past Due Items				
Target	3.0	n/a	1.0	n/a
Actual	0.0	n/a	0.0	n/a
Plant Outages (>1/2 day)				
Target	n/a	25	n/a	n/a
Actual	n/a	26	n/a	n/a
Reportable Spills				
Target	n/a	n/a	3.0	n/a
Actual	n/a	n/a	1.0	n/a
Non-Reportable Spills				
Target	n/a	n/a	21.0	n/a
Actual	n/a	n/a	12.0	n/a
Lost Time Injury Rate				
Target	n/a	n/a	n/a	0.68
Actual	n/a	n/a	n/a	0.74
Environ l Audits/Training Compliance				
Target	n/a	n/a	n/a	96.0%
Actual	n/a	n/a	n/a	97.1%
Pendant Compliance				
Target	n/a	n/a	n/a	92.0%
Actual	n/a	n/a	n/a	94.0%
Cash Handling				
Target	n/a	n/a	n/a	$ 110
Actual	n/a	n/a	n/a	$ 114

The Compensation Committee weighted the three measures equally, resulting in a 56.94% bonus score (*i.e.*, the sum of 56.25%, 225%, and 145.77%, divided by three, and multiplied by 40%) for the *Operational and Strategic Measures* segment.

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Individual Goals and Objectives Performance Measures

Valero s *Individual Goals and Objectives Performance Measures* are also established by the Chief Executive Officer in consultation with the Committee in the first quarter of the fiscal year. Valero s success is measured in areas such as upgrading the company s asset portfolio and completion of projects to further improve Valero s competitiveness. After completion of the fiscal year, the *Individual Goals and Objectives Measures* are evaluated as a whole.

Based on the Compensation Committee s assessment of Valero s achievements in 2010, the Committee awarded 100% of target resulting in a 20% bonus score (*i.e.,* the product of 100% multiplied by 20%) for the *Individual Goals and Objectives* segment.

2010 Annual Incentive Bonus Awards for Named Executive Officers

The following table provides a summary of how the 2010 annual incentive bonus amounts paid to our named executive officers were calculated:

	Klesse	*Ciskowski*	*Bowers*	*Gorder*	*Edwards*	*Marcogliese*
Base salary (1)	$1,500,000	$ 750,000	$515,000	$469,000	$450,000	$ 955,000
Bonus target percentage (2)	150%	125%	80%	80%	80%	125%
Bonus target amount (3)	$2,250,000	$ 937,500	$412,000	$375,200	$360,000	$1,193,750
Valero performance score (4)	110.74%	110.74%	110.74%	110.74%	110.74%	110.74%
Bonus calculation (5)	$2,491,650	$1,038,188	$456,249	$415,496	$398,664	$1,321,959
Actual bonus amount paid (6)	$2,492,000	$1,038,000	$456,000	$415,000	$400,000	$1,322,000

Footnotes:

(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 40%) to Valero s *Operational and Strategic Performance Measures* score (times 40%) to Valero s *Individual Goals and Objectives Performance Measures* score (times 20%). Valero s total performance score can range from 0% to 200%. For 2010, Valero s bonus performance score was 110.74% (representing 33.80% from the *Financial Performance Measures* segment plus 56.94% from the *Operational and Strategic Performance Measures* segment plus 20% from the *Individual Goals and Objectives Performance 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 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 vests over a period determined by the Compensation Committee, as well as performance shares that vest (become nonforfeitable) upon Valero s achievement of an objective performance goal. The Compensation Committee presently expects to make awards of performance shares, stock options, and restricted stock annually. The Committee does not time the grants of long-term incentive awards around Valero s release of undisclosed material information.

For each 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 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, 2010:

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%	68%
Michael S. Ciskowski	380%	62%
Kimberly S. Bowers	180%	50%
Joseph W. Gorder	180%	50%
S. Eugene Edwards	180%	50%
Richard J. Marcogliese	380%	62%

Stock Options and Restricted Stock

Our 2010 long-term incentive awards included an allocation of stock options and restricted stock weighted 25% in the form of stock options and 25% in the form of restricted stock, each on a share-count basis, and is based on our determination to provide an appropriate balance of long-term incentives.

Stock options granted in 2010 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 2010, the Compensation Committee determined that awards of restricted stock will vest in equal annual installments over a period of three 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 officers and certain other employees annually, typically during the third or fourth quarter. The Committee may also grant stock options or restricted stock to new officers or 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 or our independent directors.

The stock option and restricted stock components of our executive officers 2010 long-term incentive awards were granted in November 2010. 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, 2010.

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	135%	17%	135%	17%
Michael S. Ciskowski	95%	15.5%	95%	15.5%
Kimberly S. Bowers	45%	12.5%	45%	12.5%
Joseph W. Gorder	45%	12.5%	45%	12.5%
S. Eugene Edwards	45%	12.5%	45%	12.5%
Richard J. Marcogliese	95%	15.5%	95%	15.5%

Performance Shares

In 2010, the Compensation Committee reintroduced performance shares as a component of the long-term incentives mix of our executive officers compensation program (performance shares were not granted in 2008 or 2009). In 2010, performance shares represented 50% of each executive officer s long-term incentive target on a share count basis. Performance shares are payable in shares of Common Stock on the vesting dates of the performance shares. Shares of Common Stock are earned with respect to vesting performance shares only upon Valero s achievement of an objective performance measure, namely total stockholder return or TSR.

Specifically, the performance shares granted in 2010 are subject to vesting in three annual increments, based upon our TSR compared to our Peer Group during one-year, two-year, and three-year performance periods. Performance periods measure TSR based on the average closing stock prices for the 30 days of December 2 to December 31 at the beginning and end of the performance periods, including dividends. At the end of each performance period, our TSR for the period is compared to the TSR of our Peer Group and percentile ranking. Shares of Common Stock are awarded from zero percent of the vesting performance shares (for TSR performance below the 25th percentile ranking), to 100 percent of the vesting performance shares (for TSR performance at the 50th percentile ranking), and up to a maximum of 200 percent of the vesting performance shares (for TSR performance at the 75th percentile ranking or higher). Results are interpolated between the 25th and 75th percentiles. Shares not earned in a given performance period as a result of our

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ranking in the 25th percentile or below can be carried forward for one additional performance period and up to 100 percent of the carried amount can still be earned, depending upon Valero s percentile performance ranking for the subsequent period.

The following table shows the percentages of each named executive officer s base salary and Total Direct Compensation that represent his or her performance shares targets for the fiscal year ended December 31, 2010.

Name	Performance Shares Target as a Percentage of Base Salary	Performance Shares Award Target as a Percentage of Total Direct Compensation
William R. Klesse	270%	34%
Michael S. Ciskowski	190%	31%
Kimberly S. Bowers	90%	25%
Joseph W. Gorder	90%	25%
S. Eugene Edwards	90%	25%
Richard J. Marcogliese	190%	31%

Perquisites and Other Benefits

Perquisites

We provide certain perquisites to our named executive officers. The 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

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non-qualified Supplemental Executive Retirement Plan, or SERP, which provide supplemental pension benefits to certain highly compensated employees. Our named executive officers are participants in the SERP. 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.

For employees hired prior to January 1, 2010, 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 participant s years of credited service.

For employees hired on or after January 1, 2010, the Pension Plan (supplemented, as necessary, by the Excess Pension Plan) is a cash balance benefit that provides a monthly pension at normal retirement based on annual employer contributions that are based on years of service, eligible compensation and pay credits. After a one-year waiting period, pay credits are retroactive to the participant s date of hire and are based on years of service and eligible compensation.

Years of Service	Pay Credits
Under 10 years	5%
10 to 19 years	6%
20 years and over	7%

In addition to pay credits, participants will also be eligible for monthly interest credits based on the 10-Year treasury note rate with a minimum of 3 percent.

The SERP provides an additional benefit equal to 0.35% 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). 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.

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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 based on plan provisions. Specifically, participants may elect to have their accounts distributed in a lump sum on a specified date in the future, at least five years after the year of the deferral election. Effective January 1, 2010, the five year period changed to three years after the year of the deferral election for 2010 deferrals and after. 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. Effective January 1, 2010, participants may also elect to have their accounts distributed in one lump-sum payment or in two- to 15-year installments upon retirement. 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.

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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.

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, 2010, is stated in this proxy statement in the table under the caption Executive Compensation Nonqualified Deferred Compensation.

The Excess Pension Plan, the SERP and the Excess Thrift Plan are subject to Internal Revenue Code Section 409A and its regulations. We intend to administer and interpret these plans in a manner consistent with such Internal Revenue Code section and regulations.

Severance Arrangements

We have entered into change of control agreements with each of our named executive officers. The agreements are intended to assure the continued availability of the officers in the event of a change of control of Valero. If a change of control occurs during the term of an agreement, then the agreement becomes operative for a fixed three-year period. The agreements provide generally that the officers terms and conditions of employment 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 the company 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 officers following a change of control, and to compensate the officers at appropriate levels if their employment is unfairly or prematurely terminated during the applicable term following a change of control. For more information regarding payments that may be made under our severance arrangements, see the 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.

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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 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 provided that at each annual meeting of stockholders, stockholders would be given the opportunity to vote on an advisory resolution to ratify the compensation of our named executive officers as set forth in the Summary Compensation Table of the proxy statement. As noted in our disclosures below for Proposal No. 5, in January 2011 the SEC adopted a mandatory say on pay rule that effectively superseded our previously adopted say-on-pay policy. Accordingly, we will follow the mandates of the new SEC rule with regard to stockholder advisory votes on executive compensation.

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 our 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.

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Compensation Consultant Disclosure Policy

In 2009, our Board approved a compensation consultant disclosure policy. The policy provides that we will make certain 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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EQUITY COMPENSATION PLAN INFORMATION

The following table presents certain information regarding our compensation plans as of December 31, 2010.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (#)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (1)
Approved by stockholders:			
2005 Omnibus Stock Incentive Plan	5,796,187	19.80	9,711,596
2001 Executive Stock Incentive Plan	2,007,220	10.82	
Non-employee director stock option plan	227,000	19.06	
Non-employee director restricted stock plan			77,839
UDS non-qualified stock option plans (2)	263,309	10.04	
Premcor non-qualified stock option plans (2)	764,990	24.82	
Not approved by stockholders:			
1997 non-qualified stock option plans	2,439,936	7.93	
2003 All-Employee Stock Incentive Plan (3)	12,880,916	32.87	46,593
Total	24,379,558	24.83	9,836,028

Footnotes:

(1) Securities available for future issuance under these plans can be issued in various forms, including without limitation restricted stock and stock options.

(2) These plans were assumed by Valero, as applicable (i) on December 31, 2001, upon our acquisition of Ultramar Diamond Shamrock Corporation, and (ii) on September 1, 2005, upon our acquisition of Premcor Inc.

(3) Officers and directors of Valero are not eligible to receive grants under this plan.

For additional information on these plans, see Note 15 of Notes to Consolidated Financial Statements for the fiscal year ended December 31, 2010, included in Valero s Annual Report on Form 10-K.

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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, 2010. 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.

SUMMARY COMPENSATION TABLE

The following table provides a summary of compensation paid to our named executive officers for the fiscal years ending December 31, 2010, 2009, and 2008. The table shows amounts earned by such persons for services rendered to Valero in all capacities in which they served. The elements of compensation listed in the table are more fully described in the Compensation Discussion and Analysis section of this proxy statement and in the table s footnotes.

Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)(2)	Option Awards ($)(1)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings($)(4)	All Other Compensation ($)(5)	Total ($)(1)
William R. Klesse,	**2010**	**1,500,000**	**2,492,000**	**4,405,197**	**1,222,505**	**1,273,054**	**210,629**	**11,103,385**
Chief Executive Officer,	2009	1,500,000		4,905,200	4,306,896	791,410	194,725	11,698,231
President, and	2008	1,500,000	705,510	2,058,846	2,235,337	1,181,461	138,494	7,819,648
Chairman of the Board								
Michael S. Ciskowski,	**2010**	**750,000**	**1,038,000**	**882,658**	**244,950**	**948,613**	**68,542**	**3,932,763**
Executive Vice President	2009	750,000	450,000	1,884,808	1,654,928	209,862	60,508	5,010,106
and Chief Financial Officer	2008	700,000	513,912	739,152	802,477	636,887	56,880	3,449,308
Kimberly S. Bowers,	**2010**	**515,000**	**456,000**	**588,439**	**163,300**	**226,607**	**41,721**	**1,991,067**
Executive Vice President	2009	494,000	200,000	688,068	604,208	90,175	39,305	2,115,756
and General Counsel	2008	475,000	217,954	278,551	302,479	185,353	38,643	1,497,980
Joseph W. Gorder,	**2010**	**469,000**	**415,000**	**588,439**	**163,300**	**223,840**	**47,872**	**1,907,451**
Executive Vice President	2009	460,000	200,000	640,695	562,496	92,026	43,936	1,999,153
and Chief Commercial Officer	2008	445,000	204,188	261,099	283,441	207,099	43,141	1,443,968
S. Eugene Edwards,	**2010**	**450,000**	**400,000**	**588,439**	**163,300**	**448,374**	**43,036**	**2,093,149**
Executive Vice President	(6)							
and Chief Development Officer	(6)							
Richard J. Marcogliese (7)	**2010**	**955,000**	**1,322,000**			**4,048,774**	**1,194,961**	**7,520,735**
	2009	955,000	450,000	1,884,808	1,654,928	920,851	75,099	5,940,686
	2008	855,000	627,707	902,724	980,081	1,757,183	72,049	5,194,744

Footnotes to Summary Compensation table:

(1) The amounts shown represent the grant date fair value of awards for each of the fiscal years shown, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation (FASB ASC Topic 718).

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(2) See the Grants of Plan-Based Awards table for information regarding performance shares and shares of restricted stock granted in 2010. Additional information about the performance shares and restricted stock granted in 2010 is disclosed in Note 15 (Stock-Based Compensation) of Notes to Consolidated Financial Statements in Valero s Form 10-K for the year ended December 31, 2010.

(3) See the Grants of Plan-Based Awards table for information on stock options granted in 2010. For information about valuation assumptions for the 2010 stock option grants, refer to Note 15 (Stock-Based Compensation) of Notes to Consolidated Financial Statements in Valero s Form 10-K for the year ended December 31, 2010. For information about valuation assumptions for the 2009 and 2008 stock option grants, refer to Note 22 (Stock-Based Compensation) of Notes to Consolidated Financial Statements in Valero s Form 10-K for the years ended December 31, 2009, and 2008, respectively.

(4) This column represents the sum of the change in pension value and non-qualified deferred compensation earnings for each of the named executive officers. See the Pension Benefits Table for the present value assumptions used for these calculations. The amount of above-market or preferential earnings on non-tax-qualified deferred compensation included in the amounts presented above is zero.

(5) The amounts listed as All Other Compensation for the year ended December 31, 2010, are composed of the following items:

Item of income (in dollars)	*Klesse*	*Ciskowski*	*Bowers*	*Gorder*	*Edwards*	*Marcogliese*
Valero contribution to Thrift Plan account	14,700	14,700	14,700	14,700	14,700	14,700
Valero contribution to Excess Thrift Plan account	94,125	37,875	20,250	16,515	15,375	53,250
Reimbursement of club membership dues		7,158		7,158	6,098	
Imputed income for personal liability insurance	1,414	1,414	1,414	1,414	1,414	1,388
Imputed income for tax return preparation		900		900	900	900
Executive insurance premiums with respect to cash value life insurance	88,277					
Long-term disability premium imputed income	4,549	4,549	4,549	4,549	4,549	4,466
Imputed income for insurance (life & survivor) over $50,000	7,564	1,946	808	2,636		9,245
Accrued vacation payout						139,112
Severance pay						971,900
Total	210,629	68,542	41,721	47,872	43,036	1,194,961

(6) Mr. Edwards was not a named executive officer for the years ended December 31, 2009 and 2008.

(7) Mr. Marcogliese retired from the office of Executive Vice President and Chief Operating Officer effective November 22, 2010. He is included in the compensation tables above pursuant to Item 402(a)(3)(iv) of Regulation S-K because his compensation would have been disclosed but for the fact that he was not serving as an executive officer as of December 31, 2010. Mr. Marcogliese s reported compensation amounts do not

include any estimate of the cost of his forfeiture of 8,839 performance shares resulting from his retirement. In connection with his retirement, Mr. Marcogliese and Valero entered into a compensation arrangement. See Certain Relationships and Related Transactions Transactions with Management and Others for a description of the arrangement.

GRANTS OF PLAN-BASED AWARDS
FOR FISCAL YEAR ENDED DECEMBER 31, 2010

The following table describes grants of plan-based awards made to our named executive officers in 2010.

		Estimated Future Payouts Under Equity Incentive Plan Awards			Exercise or Base Price of Option Awards	Closing Market Price on Grant Date	Grant Date Fair Value of Stock and Option
		Threshold	Target	Maximum			
Name	Grant Date	(#)	(#)	(#)	($/sh.) (1)	($/sh.)	Awards ($)(2)
William R. Klesse	11/17/10(3)	n/a	149,725	n/a			2,842,529
	11/17/10(4)	0	299,450	598,900			1,562,668
	11/17/10(5)	n/a	149,725	n/a	18.985	19.10	1,222,505
Michael S. Ciskowski	11/17/10(3)	n/a	30,000	n/a			569,550
	11/17/10(4)	0	60,000	120,000			313,108
	11/17/10(5)	n/a	30,000	n/a	18.985	19.10	244,950
Kimberly S. Bowers	11/17/10(3)	n/a	20,000	n/a			379,700
	11/17/10(4)	0	40,000	80,000			208,739
	11/17/10(5)	n/a	20,000	n/a	18.985	19.10	163,300
Joseph W. Gorder	11/17/10(3)	n/a	20,000	n/a			379,700
	11/17/10(4)	0	40,000	80,000			208,739
	11/17/10(5)	n/a	20,000	n/a	18.985	19.10	163,300
S. Eugene Edwards	11/17/10(3)	n/a	20,000	n/a			379,700
	11/17/10(4)	0	40,000	80,000			208,739
	11/17/10(5)	n/a	20,000	n/a	18.985	19.10	163,300
Richard J. Marcogliese	(6)						

Footnotes:

(1) Valero s 2005 Omnibus Incentive Plan provides that the exercise price for all options granted under the plan will be equal to the mean of the high and low reported sales price per share on the NYSE of our Common Stock on the date of grant.

(2) The reported grant date fair value of stock and option awards was determined in compliance with FASB ASC Topic 718.

(3) Represents a grant of shares of restricted stock. The shares vest (become nonforfeitable) annually in equal one-third increments beginning in 2011. Fifty percent of the shares are eligible (the Eligible Shares) for

performance-accelerated vesting. Accordingly, notwithstanding the restricted shares regular three-year vesting schedule, to the extent any Eligible Shares have not yet vested per their regular vesting schedule, and to the extent the Eligible Shares have not been forfeited or otherwise canceled, all unvested Eligible Shares will vest automatically at the close of business on the last date of the period when the NYSE-reported closing price per share of Common Stock is $40.00 or higher for five consecutive trading days. Dividends on restricted stock are paid as and when dividends are declared and paid on our outstanding Common Stock. Restricted stock is more fully described in Compensation Discussion and Analysis Elements of Executive Compensation Long-Term Incentive Awards.

(4) Represents an award of performance shares. In our performance share program, on any normal vesting date, our executive officers can earn, in shares of Common Stock, from 0% to 200% of the number of performance shares that are vesting, based upon Valero s achievement of objective performance measures during the performance periods prescribed by our Compensation Committee. Additional information regarding the performance shares listed above is disclosed under the caption Compensation Discussion and Analysis Long-Term Incentive Awards Performance Shares. The amounts listed above represent a grant of performance shares in three tranches. The performance shares will vest annually in one-third increments in

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January 2012, January 2013, and January 2014. The first tranche will vest in January 2012, with any resulting payout at that time conditioned upon Valero s performance during the performance period ending in December 2011. Each tranche is deemed to be a separate grant for fair value purposes. The first tranche was deemed to be granted (for fair value purposes under FASB ASC Topic 718) in 2010, and is deemed to have an expected conversion rate of 83% and fair value per share of $18.79. The grant date (for fair value purposes) for the second tranche is expected to occur in either the fourth quarter of 2011 or in January 2012, depending on actions to be taken by our Compensation Committee. Similarly, the grant date (for fair value purposes) for the third tranche is expected to occur in either the fourth quarter of 2012 or in January 2013, depending on actions to be taken by our Compensation Committee. The expected conversion rates and fair values of the second and third tranches will be determined on their respective grant dates.

(5) Represents a grant of options to purchase Common Stock. The options vest (become nonforfeitable) in equal annual installments over a period of three years beginning in 2010, and will expire in 10 years from their date of grant. For financial reporting purposes, the fair value of stock options must be determined using an option-pricing model such as Black-Scholes or a binomial model taking into consideration the following:

- the exercise price of the option;
- the expected life of the option;
- the current price of the underlying stock;
- the expected volatility of the underlying stock;
- the expected dividends on the underlying stock; and
- the risk-free interest rate for the expected life of the option.

The Black-Scholes option pricing model was used to determine grant date fair value. Options issued under our plans are not freely traded, and the exercise of such options is subject to substantial restrictions. The Black-Scholes model does not give effect to either risk of forfeiture or lack of transferability. The estimated values under the Black-Scholes model are based on assumptions as to variables such as interest rates, stock price volatility, and future dividend yield. The estimated values presented in this table were calculated using an expected average option life of 6.0 years, risk-free rate of return of 1.83%, expected volatility rate of 48.21%, and a dividend yield of 1.05%, which is the expected annualized quarterly dividend rate in effect at the date of grant expressed as a percentage of the market value of our Common Stock on the date of grant. The actual value of stock options could be zero; realization of any positive value depends upon the actual future market performance of our Common Stock, the continued employment of the option holder throughout the vesting period, and the timing of the exercise of the option. Accordingly, the values set forth in this table may not be achieved. The actual value, if any, a person will realize upon exercise of an option will depend on the excess of the market value of our Common Stock over the exercise price on the date the option is exercised. The options are also described in Compensation Discussion and Analysis Elements of Executive Compensation Long-Term Incentive Awards.

(6) Mr. Marcogliese did not receive any grants of plan-based awards in 2010.

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OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2010

The following table describes unexercised stock options, unvested shares of restricted stock, and unvested performance shares held by our named executive officers as of December 31, 2010.

	Option Awards				Stock Awards: Restricted Stock		Stock Awards: Performance Shares	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexcercisable	Option Exercise Price ($)(1)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(2)
William R. Klesse	108,000		9.825	10/29/13	3,652(6)	84,434	3,936(11)	0
	68,000		21.355	10/21/14	11,439(7)	264,470	18,999(12)	292,838
	297,450	148,725(3)	17.11	10/16/15	45,882(8)	1,060,792	299,450(13)	6,923,284
	203,925	407,850(4)	19.415	10/15/19	128,448(9)	2,969,718		
		149,725(5)	18.985	11/17/20	95,151(10)	2,199,891		
Michael S. Ciskowski	46,000		21.355	10/21/14	1,224(6)	28,299	838(11)	0
	106,784	53,391(3)	17.11	10/16/15	3,600(7)	83,232	3,750(12)	57,800
	78,359	156,716(4)	19.415	10/15/19	25,920(8)	599,270	60,000(13)	1,387,200
		30,000(5)	18.985	11/17/20	77,664(9)	1,795,592		
					30,000(10)	693,600		
Kimberly S. Bowers	9,600		9.825	10/29/13	412(6)	9,525	281(11)	0
	9,400		21.355	10/21/14	1,440(7)	33,293	1,500(12)	23,120
	40,250	20,125(3)	17.11	10/16/15	9,768(8)	225,836	40,000(13)	924,800
	28,609	57,216(4)	19.415	10/15/19	28,352(9)	655,498		
		20,000(5) &						