VALERO ENERGY CORP/TX
Form 10-K
February 26, 2010

Table of Contents

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
**FORM 10-K**

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2009**

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

**Commission file number 1-13175**

**VALERO ENERGY CORPORATION**

(Exact name of registrant as specified in its charter)

| **Delaware** | **74-1828067** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **One Valero Way**<br>**San Antonio, Texas** | **78249** |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code: (210) 345-2000

**Securities registered pursuant to Section 12(b) of the Act:** Common stock, $0.01 par value per share listed on the New York Stock Exchange.

**Securities registered pursuant to Section 12(g) of the Act:** None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The aggregate market value of the voting and non-voting common stock held by non-affiliates was approximately $9.5 billion based on the last sales price quoted as of June 30, 2009 on the New York Stock Exchange, the last business day of the registrant s most recently completed second fiscal quarter.
As of January 31, 2010, 564,808,668 shares of the registrant s common stock were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

We intend to file with the Securities and Exchange Commission a definitive Proxy Statement for our Annual Meeting of Stockholders scheduled for April 29, 2010, at which directors will be elected. Portions of the 2010 Proxy Statement are incorporated by reference in Part III of this Form 10-K and are deemed to be a part of this report.

Table of Contents

**CROSS-REFERENCE SHEET**

The following table indicates the headings in the 2010 Proxy Statement where certain information required in Part III of Form 10-K may be found.

| Form 10-K Item No. and Caption | Heading in 2010 Proxy Statement |
|---|---|
| 10. Directors, Executive Officers and Corporate Governance | *Information Regarding the Board of Directors, Independent Directors, Audit Committee, Governance Documents and Codes of Ethics, Proposal No. 1 Election of Directors*, *Information Concerning Nominees and Other Directors,* and *Section 16(a) Beneficial Ownership Reporting Compliance* |
| 11. Executive Compensation | *Compensation Committee, Compensation Discussion and Analysis, Director Compensation, Executive Compensation,* and *Certain Relationships and Related Transactions* |
| 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | *Beneficial Ownership of Valero Securities* and *Equity Compensation Plan Information* |
| 13. Certain Relationships and Related Transactions, and Director Independence | *Certain Relationships and Related Transactions* and *Independent Directors* |
| 14. Principal Accountant Fees and Services | *KPMG Fees for Fiscal Year 2009, KPMG Fees for Fiscal Year 2008,* and *Audit Committee Pre-Approval Policy* |

Copies of all documents incorporated by reference, other than exhibits to such documents, will be provided without charge to each person who receives a copy of this Form 10-K upon written request to Jay D. Browning, Senior Vice President Corporate Law and Secretary, Valero Energy Corporation, P.O. Box 696000, San Antonio, Texas 78269-6000.

**CONTENTS**

Table of Contents

## PART I

The terms Valero, we, our, and us, as used in this report, may refer to Valero Energy Corporation, to one or mor our consolidated subsidiaries, or to all of them taken as a whole. In this Form 10-K, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions, and resources, under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You should read our forward-looking statements together with our disclosures beginning on page 26 of this report under the heading: *CAUTIONARY STATEMENT FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.*

### ITEMS 1., 1A. and 2. BUSINESS, RISK FACTORS AND PROPERTIES

***Overview***. We are a Fortune 500 company based in San Antonio, Texas. Our corporate offices are at One Valero Way, San Antonio, Texas, 78249, and our telephone number is (210) 345-2000. Our common stock trades on the New York Stock Exchange under the symbol VLO. We were incorporated in Delaware in 1981 under the name Valero Refining and Marketing Company, and our name was changed to Valero Energy Corporation on August 1, 1997. On January 31, 2010, we had 20,920 employees.

We own 15 refineries located in the United States, Canada, and Aruba. Our refineries can produce conventional gasolines, distillates, jet fuel, asphalt, petrochemicals, lubricants, and other refined products as well as a slate of premium products including CBOB and RBOB[1], gasoline meeting the specifications of the California Air Resources Board (CARB), CARB diesel fuel, low-sulfur and ultra-low-sulfur diesel fuel, and oxygenates (liquid hydrocarbon compounds containing oxygen).

We market branded and unbranded refined products on a wholesale basis in the United States and Canada through an extensive bulk and rack marketing network. We also sell refined products through a network of about 5,800 retail and wholesale branded outlets in the United States, Canada, and Aruba.

We also own ten ethanol plants located in the Midwest with a combined ethanol production capacity of about 1.1 billion gallons per year. Three of these facilities were acquired after December 31, 2009.

***Available Information***. Our internet website address is www.valero.com. Information contained on our website is not part of this annual report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our internet website (in the Investor Relations section), free of charge, soon after we file or furnish such material. We also post our corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers, and the charters of the committees of our board of directors in the same website location. Our governance documents are available in print to any stockholder that makes a written request to Jay D. Browning, Senior Vice President Corporate Law and Secretary, Valero Energy Corporation, P.O. Box 696000, San Antonio, Texas 78269-6000.

[1] **CBOB**, or conventional blendstock for oxygenate blending, is conventional gasoline blendstock intended for blending with oxygenates downstream of the refinery where it was produced.

CBOB becomes conventional gasoline after blending with oxygenates.

**RBOB** is a base unfinished reformulated gasoline mixture known as reformulated gasoline blendstock for oxygenate blending. It is a specially produced reformulated gasoline blendstock intended for blending with oxygenates downstream of the refinery where it was produced to produce finished gasoline that meets or exceeds U.S. emissions performance requirements for federal reformulated gasoline.

Table of Contents

## SEGMENTS

Our business is organized into three reportable segments: refining, ethanol, and retail. Prior to the second quarter of 2009, we had two reportable segments: refining and retail. As a result of our acquisition of several ethanol plants during the second quarter of 2009 (as discussed in Note 2 of Notes to Consolidated Financial Statements), we now present ethanol as a third reportable segment. The financial information about our segments in Note 20 of Notes to Consolidated Financial Statements is incorporated herein by reference.

Our refining segment includes refining operations, wholesale marketing, product supply and distribution, and transportation operations. The refining segment is segregated geographically into the Gulf Coast, Mid-Continent, West Coast, and Northeast regions.

Our ethanol segment includes sales of internally produced ethanol and distillers grains. Our ethanol operations are geographically located in the central plains region of the United States.

Our retail segment includes company-operated convenience stores, Canadian dealers/jobbers, truckstop facilities, cardlock facilities, and home heating oil operations. The retail segment is segregated into two geographic regions. Our retail operations in eastern Canada are referred to as Retail Canada. Our retail operations in the United States are referred to as Retail U.S.

Table of Contents

## VALERO S OPERATIONS

### REFINING

On December 31, 2009, our refining operations included 15 refineries in the United States, Canada, and Aruba with a combined total throughput capacity of approximately 2.8 million barrels per day (BPD). The following table presents the locations of these refineries and their approximate feedstock throughput capacities as of December 31, 2009.

| Refinery | Location | Throughput Capacity [a] (barrels per day) |
|---|---|---|
| **Gulf Coast**: | | |
| Corpus Christi [b] | Texas | 315,000 |
| Port Arthur | Texas | 310,000 |
| St. Charles | Louisiana | 250,000 |
| Texas City | Texas | 245,000 |
| Aruba [c] | Aruba | 235,000 |
| Houston | Texas | 145,000 |
| Three Rivers | Texas | 100,000 |
| | | 1,600,000 |
| **West Coast**: | | |
| Benicia | California | 170,000 |
| Wilmington | California | 135,000 |
| | | 305,000 |
| **Mid-Continent**: | | |
| Memphis | Tennessee | 195,000 |
| McKee | Texas | 170,000 |
| Ardmore | Oklahoma | 90,000 |
| | | 455,000 |
| **Northeast** [d]: | | |
| Quebec City | Quebec, Canada | 235,000 |
| Paulsboro | New Jersey | 185,000 |
| | | 420,000 |
| **Total** | | **2,780,000** |

[a] Throughput capacity represents estimated capacity for

processing crude oil, intermediates, and other feedstocks. Total estimated crude oil capacity is approximately 2.4 million BPD.

(b) Represents the combined capacities of two refineries the Corpus Christi East and Corpus Christi West Refineries.

(c) The Aruba Refinery has been idle since July 2009.

(d) We permanently shut down our Delaware City, Delaware refinery in the fourth quarter of 2009, as described in Note 2 of Notes to Consolidated Financial Statements. Throughput capacity of this refinery was 210,000 BPD.

Table of Contents

**Total Refining System**

The following table presents the percentages of principal charges and yields (on a combined basis) for all of our refineries for the year ended December 31, 2009. Our total combined throughput volumes averaged 2,272,400 BPD for the 12 months ended December 31, 2009. (The information presented excludes the charges and yields of the Delaware City Refinery, which we permanently shut down in the fourth quarter of 2009, as more fully described in Note 2 of Notes to Consolidated Financial Statements.)

Combined Refining Charges and Yields

| | | Percentage |
|---|---|---|
| Charges: | | |
| | sour crude oil | 43% |
| | acidic sweet crude oil | 3% |
| | sweet crude oil | 28% |
| | residual fuel oil | 7% |
| | other feedstocks | 7% |
| | blendstocks | 12% |
| Yields: | | |
| | gasolines and blendstocks | 48% |
| | distillates | 33% |
| | petrochemicals | 3% |
| | other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other) | 16% |

**Gulf Coast**

The following table presents the percentages of principal charges and yields (on a combined basis) for the eight refineries in this region for the year ended December 31, 2009. Total throughput volumes for the Gulf Coast refining region averaged 1,273,600 BPD for the 12 months ended December 31, 2009.

Combined Gulf Coast Region Charges and Yields

| | | Percentage |
|---|---|---|
| Charges: | | |
| | sour crude oil | 53% |
| | acidic sweet crude oil | 1% |
| | sweet crude oil | 11% |
| | residual fuel oil | 13% |
| | other feedstocks | 8% |
| | blendstocks | 14% |
| Yields: | | |
| | gasolines and blendstocks | 44% |
| | distillates | 33% |
| | petrochemicals | 4% |
| | other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other) | 19% |

***Corpus Christi East and West Refineries***. Our Corpus Christi East and West Refineries are located on the Texas Gulf Coast along the Corpus Christi Ship Channel. The West Refinery specializes in processing primarily sour crude oil and resid into premium products such as RBOB. The East Refinery processes heavy, high-sulfur crude oil into conventional gasoline, diesel, jet fuel, asphalt, aromatics, and other light products. The East and West Refineries are substantially integrated allowing for the transfer of various feedstocks and blending components between the two refineries and the sharing of resources. The refineries typically receive and deliver feedstocks and products by tanker

and barge via deepwater docking facilities along the Corpus Christi Ship Channel. Three truck racks with a total of 16 bays

Table of Contents

service local markets for gasoline, diesel, jet fuels, liquefied petroleum gases, and asphalt. Finished products are distributed across the refinery docks into ships or barges, and are transported via third-party pipelines to the Colonial, Explorer, Valley, and other major pipelines.

***Port Arthur Refinery***. Our Port Arthur Refinery is located on the Texas Gulf Coast approximately 90 miles east of Houston. The refinery processes primarily heavy sour crude oils and other feedstocks into conventional and premium gasoline and RBOB, as well as diesel, jet fuel, petrochemicals, petroleum coke, and sulfur. The refinery receives crude oil over marine docks and through crude oil pipelines, and has access to the Sunoco and Oiltanking terminals at Nederland, Texas. Finished products are distributed into the Colonial, Explorer, and TEPPCO pipelines, across the refinery docks into ships or barges, and through a local truck rack.

***St. Charles Refinery***. Our St. Charles Refinery is located approximately 15 miles from New Orleans along the Mississippi River. The refinery processes sour crude oils and other feedstocks into gasoline, distillates, and other light products. The refinery receives crude oil over five marine docks and has access to the Louisiana Offshore Oil Port where it can receive crude oil through a 24-inch pipeline. Finished products can be shipped over these docks or through the Colonial pipeline network for distribution to the eastern United States.

***Texas City Refinery***. Our Texas City Refinery is located southeast of Houston on the Texas City Ship Channel. The refinery processes primarily heavy sour crude oils into a wide slate of products. The refinery receives and delivers its feedstocks and products by tanker and barge via deepwater docking facilities along the Texas City Ship Channel and uses the Colonial, Explorer, and TEPPCO pipelines for distribution of its products.

***Houston Refinery***. Our Houston Refinery is located on the Houston Ship Channel. It processes a mix of crude oils and low-sulfur resid into reformulated gasoline and distillates. The refinery receives its feedstocks via tanker at deepwater docking facilities along the Houston Ship Channel and interconnecting pipelines with the Texas City Refinery. It delivers its products through major refined-product pipelines, including the Colonial, Explorer, Orion, and TEPPCO pipelines.

***Three Rivers Refinery***. Our Three Rivers Refinery is located in South Texas between Corpus Christi and San Antonio. It processes primarily heavy sweet and medium sour crude oils into gasoline, distillates, and aromatics. The refinery has access to crude oil from foreign sources delivered to the Texas Gulf Coast at Corpus Christi as well as crude oil from domestic sources through third-party pipelines. A 70-mile pipeline with capacity of 120,000 BPD transports crude oil via connections to the Three Rivers Refinery from Corpus Christi. The refinery distributes its refined products primarily through pipelines owned by NuStar Energy L.P.

***Aruba Refinery***. Our Aruba Refinery is located on the island of Aruba in the Caribbean Sea. The refinery has been idle since July 2009. When in operation, it processes primarily heavy sour crude oil and produces primarily intermediate feedstocks and finished distillate products. Significant amounts of the refinery s intermediate feedstock production are transported and further processed in our other refineries in the Gulf Coast, West Coast, and Northeast regions. The refinery receives crude oil by ship at its two deepwater marine docks, which can berth ultra-large crude carriers. The refinery s products are delivered by ship primarily into markets in the United States, the Caribbean, Europe, and South America.

Table of Contents

**West Coast**

The following table presents the percentages of principal charges and yields (on a combined basis) for the two refineries in this region for the year ended December 31, 2009. Total throughput volumes for the West Coast refining region averaged approximately 266,700 BPD for the 12 months ended December 31, 2009.

Combined West Coast Region Charges and Yields

| | | Percentage |
|---|---|---|
| Charges: | | |
| | sour crude oil | 63% |
| | acidic sweet crude oil | 6% |
| | sweet crude oil | 3% |
| | other feedstocks | 11% |
| | blendstocks | 17% |
| Yields: | | |
| | gasolines and blendstocks | 64% |
| | distillates | 22% |
| | other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other) | 14% |

***Benicia Refinery***. Our Benicia Refinery is located northeast of San Francisco on the Carquinez Straits of San Francisco Bay. It processes sour crude oils into premium products, primarily CARBOB gasoline. (CARBOB is a reformulated gasoline mixture that meets the specifications of the California Air Resources Board when blended with ethanol.) The refinery receives crude oil supplies via a deepwater dock that can berth large crude oil carriers and a 20-inch crude oil pipeline connected to a southern California crude oil delivery system. Most of the refinery s products are distributed via the Kinder Morgan pipeline system in California.

***Wilmington Refinery***. Our Wilmington Refinery is located near Los Angeles, California. The refinery processes a blend of lower-cost heavy and high-sulfur crude oils. The refinery can produce all of its gasoline as CARBOB gasoline and produces both ultra-low-sulfur diesel and CARB diesel. The refinery is connected by pipeline to marine terminals and associated dock facilities that can move and store crude oil and other feedstocks. Refined products are distributed via the Kinder Morgan pipeline system and various third-party terminals in southern California, Nevada, and Arizona.

Table of Contents

**Mid-Continent**

The following table presents the percentages of principal charges and yields (on a combined basis) for the three refineries in this region for the year ended December 31, 2009. Total throughput volumes for the Mid-Continent refining region averaged 387,500 BPD for the 12 months ended December 31, 2009.

Combined Mid-Continent Region Charges and Yields

| | | Percentage |
|---|---|---|
| Charges: | | |
| | sour crude oil | 9% |
| | sweet crude oil | 80% |
| | residual fuel oil | 1% |
| | other feedstocks | 1% |
| | blendstocks | 9% |
| Yields: | | |
| | gasolines and blendstocks | 54% |
| | distillates | 35% |
| | petrochemicals | 3% |
| | other products (includes vacuum gas oil, No. 6 fuel oil, asphalt, and other) | 8% |

***Memphis Refinery***. Our Memphis Refinery is located in Tennessee along the Mississippi River s Lake McKellar. It processes primarily light sweet crude oils. Almost all of its production is light products, including regular and premium gasoline, diesel, jet fuels, and petrochemicals. Crude oil is supplied to the refinery via the Capline pipeline and can also be received, along with other feedstocks, via barge. The refinery s products are distributed via truck racks at our three product terminals, barges, and a pipeline network, including one pipeline directly to the Memphis airport.

***McKee Refinery***. Our McKee Refinery is located in the Texas Panhandle. It processes primarily sweet crude oils and produces conventional gasoline, RBOB, low-sulfur diesel, jet fuels, and asphalt. The refinery has access to crude oil from Texas, Oklahoma, Kansas, and Colorado through third-party pipelines. The refinery also has access at Wichita Falls, Texas to third-party pipelines that transport crude oil from the Texas Gulf Coast and West Texas to the Mid-Continent region. The refinery distributes its products primarily via NuStar Energy L.P. s pipelines to markets in Texas, New Mexico, Arizona, Colorado, and Oklahoma.

***Ardmore Refinery***. Our Ardmore Refinery is located in Ardmore, Oklahoma, approximately 100 miles south of Oklahoma City. It processes medium sour and light sweet crude oils into conventional gasoline, ultra-low-sulfur diesel, liquefied petroleum gas products, and asphalt. Local crude oil is gathered by TEPPCO s crude oil gathering/trunkline systems and trucking operations, and then transported to the refinery through NuStar Energy L.P. s crude oil pipeline systems. Foreign, mid-continent, and other domestic crude oils are received via third-party pipelines. Refined products are transported to market via railcars, trucks, and the Magellan pipeline system.

Table of Contents

**Northeast**

The following table presents the percentages of principal charges and yields (on a combined basis) for the two refineries in this region for the year ended December 31, 2009. Total throughput volumes for the Northeast refining region averaged 344,600 BPD for the 12 months ended December 31, 2009. (The information presented excludes the charges and yields of the Delaware City Refinery, which we shut down in the fourth quarter of 2009, as more fully described in Note 2 of Notes to Consolidated Financial Statements.)

Combined Northeast Region Charges and Yields

| | | Percentage |
|---|---|---|
| Charges: | | |
| | sour crude oil | 29% |
| | acidic sweet crude oil | 8% |
| | sweet crude oil | 51% |
| | residual fuel oil | 1% |
| | other feedstocks | 6% |
| | blendstocks | 5% |
| Yields: | | |
| | gasolines and blendstocks | 44% |
| | distillates | 41% |
| | petrochemicals | 1% |
| | other products (includes vacuum gas oil, No. 6 fuel oil, petroleum coke, asphalt, and other) | 14% |

***Quebec City Refinery***. Our Quebec City Refinery is located in Lévis, Canada (near Quebec City). It processes sweet crude oils and lower-quality, sweet acidic crude oils into conventional gasoline, low-sulfur diesel, jet fuels, heating oil, and propane. The refinery receives crude oil by ship at its deepwater dock on the St. Lawrence River. We charter large ice-strengthened, double-hulled crude oil tankers that can navigate the St. Lawrence River year-round. The refinery transports its products to its primary terminals in Quebec and Ontario primarily by train, and also uses ships and trucks extensively throughout eastern Canada.

***Paulsboro Refinery***. Our Paulsboro Refinery is located in Paulsboro, New Jersey, approximately 15 miles south of Philadelphia on the Delaware River. The refinery processes primarily sour crude oils into a wide slate of products including gasoline, distillates, lube oil basestocks, asphalt, lube extracts, petroleum coke, sulfur, fuel oil, propane, and butane. Feedstocks and refined products are typically transported by tanker and barge via refinery-owned dock facilities along the Delaware River, Buckeye s product distribution system (into western Pennsylvania and Ohio), a local truck rack owned by NuStar Energy L.P., railcars, and the Colonial pipeline, which allows products to be sold into the New York Harbor market.

Table of Contents

**Feedstock Supply**

Approximately 55 percent of our current crude oil feedstock requirements are purchased through term contracts while the remaining requirements are generally purchased on the spot market. Our term supply agreements include arrangements to purchase feedstocks at market-related prices directly or indirectly from various foreign national oil companies (including feedstocks originating in the Middle East, Africa, Asia, Mexico, and South America) as well as international and domestic oil companies. The term contracts generally permit the parties to amend the contracts (or terminate them), effective as of the next scheduled renewal date, by giving the other party proper notice within a prescribed period of time (*e.g.*, 60 days, 6 months) before expiration of the current term. The majority of the crude oil purchased under Valero s term contracts is purchased at the producer s official stated price (*i.e.*, the market price established by the seller for all purchasers) and not at a negotiated price specific to Valero. About 75 percent of our crude oil feedstocks under term supply agreements are imported from foreign sources and about 25 percent are domestic. In the event we become unable to purchase crude oil from any one of these sources, we believe that adequate alternative supplies of crude oil would be available.

The U.S. network of crude oil pipelines and terminals allows us to acquire crude oil from producing leases, domestic crude oil trading centers, and ships delivering cargoes of foreign and domestic crude oil. Our Quebec City and Aruba Refineries rely on foreign crude oil that is delivered to the refineries dock facilities by ship. We use the futures market to manage a portion of the price risk inherent in purchasing crude oil in advance of the delivery date and holding inventories of crude oils and refined products.

**Refining Segment Sales**

Our refining segment includes sales of refined products in both the wholesale rack and bulk markets. These sales include refined products that are manufactured in our refining operations as well as refined products purchased or received on exchange from third parties. Most of our refineries have access to deepwater transportation facilities and interconnect with common-carrier pipeline systems, allowing us to sell products in most major geographic regions of the United States and eastern Canada. No customer accounted for more than 10 percent of our total operating revenues in 2009.

***Wholesale Marketing***

We market branded and unbranded transportation fuels on a wholesale basis in 44 states through an extensive rack marketing network. The principal purchasers of our transportation fuels from terminal truck racks are wholesalers, distributors, retailers, and truck-delivered end users throughout the United States.

The majority of our rack volume is sold through unbranded channels. The remainder is sold to distributors and dealers that are members of the Valero-brand family that operate approximately 4,000 branded sites. These sites are independently owned and are supplied by us under multi-year contracts. For wholesale branded sites, we promote our Valero® brand throughout the United States. In addition, we offer the Beacon® brand in California and the Shamrock® brand elsewhere in the United States.

***Bulk Sales and Trading***

We sell a significant portion of our gasoline and distillate production through bulk sales channels in domestic and international markets. Our bulk sales are made to various oil companies and traders as well as certain bulk end-users such as railroads, airlines, and utilities. Our bulk sales are transported primarily by pipeline, barges, and tankers to major tank farms and trading hubs.

Table of Contents

We also enter into refined product exchange and purchase agreements. These agreements help to minimize transportation costs, optimize refinery utilization, balance refined product availability, broaden geographic distribution, and provide access to markets not connected to our refined product pipeline systems. Exchange agreements provide for the delivery of refined products by us to unaffiliated companies at our and third parties terminals in exchange for delivery of a similar amount of refined products to us by these unaffiliated companies at specified locations. Purchase agreements involve our purchase of refined products from third parties with delivery occurring at specified locations.

***Specialty Products***

We also sell a variety of other products produced at our refineries, which we refer to collectively as Specialty Products. Our Specialty Products include asphalt, lube oils, natural gas liquids (NGLs), petroleum coke, petrochemicals, and sulfur.

We produce asphalt at six of our refineries. Our asphalt products are sold for use in road construction, road repair, and roofing applications through a network of refinery and terminal loading racks.

We produce lube oils at two of our refineries. We produce and market paraffinic, naphthenic, and aromatic oils suitable for use in a wide variety of lubricant and process applications.

NGLs produced at our refineries include butane, isobutane, and propane. These products can be used for gasoline blending, home heating, and petrochemical plant feedstocks.

We are a significant producer of petroleum coke, supplying primarily power generation customers and cement manufacturers. Petroleum coke is used largely as a substitute for coal.

We produce and market a number of commodity petrochemicals including aromatic solvents (benzene, toluene, and xylene) and two grades of propylene. Aromatic solvents and propylenes are sold to customers in the chemical industry for further processing into such products as paints, plastics, and adhesives.

We are a large producer of sulfur with sales primarily to customers in the agricultural sector. Sulfur is used in manufacturing fertilizer.

Table of Contents

**ETHANOL**

We own ten ethanol plants in the Midwest with a combined ethanol production capacity of about 1.1 billion gallons per year. Our ethanol plants are dry mill facilities[1] that process corn to produce ethanol and distillers grains.[2] We source our corn supply from local farmers and commercial elevators. Our facilities receive corn by rail and by truck. We publish a corn bid on our website that local farmers and cooperative dealers can use to facilitate corn supply transactions.

After processing, the ethanol is held in storage tanks at our plant sites pending loading to truck and rail car transportation. We sell our ethanol (i) to large customers primarily refiners and gasoline blenders under term and spot contracts, and (ii) in bulk markets such as New York, Chicago, Dallas, and the West Coast. We also use our ethanol for our own needs in blending gasoline. We ship our dry distillers grains (DDG) by truck or rail primarily to animal feed customers in the U.S. and Mexico, with some sales into the Far East. We also sell modified distillers grains locally at our plant sites.

The following table presents the locations of our ethanol plants, their approximate ethanol and dry distillers grains production capacities, and their approximate corn processing capacities.

| State | City | Ethanol Production (in gallons per year) | Production of DDG (in tons per year) | Corn Processed (in bushels per year) |
|---|---|---|---|---|
| Indiana | Linden | 110 million | 350,000 | 40 million |
| Iowa | Albert City | 110 million | 350,000 | 40 million |
| | Charles City | 110 million | 350,000 | 40 million |
| | Fort Dodge | 110 million | 350,000 | 40 million |
| | Hartley | 110 million | 350,000 | 40 million |
| Minnesota | Welcome | 110 million | 350,000 | 40 million |
| Nebraska | Albion | 110 million | 350,000 | 40 million |
| Ohio | Bloomingburg | 110 million | 350,000 | 40 million |
| South Dakota | Aurora | 120 million | 390,000 | 43 million |
| Wisconsin | Jefferson | 110 million | 350,000 | 40 million |
| | Total | 1,110 million | 3,540,000 | 403 million |

We acquired our Iowa, Minnesota, Nebraska, and South Dakota ethanol plants in the second quarter of 2009. Ethanol production from these seven plants in the fourth quarter of 2009 averaged 2.2 million gallons per day. We acquired our Indiana and Ohio plants in January 2010. The Indiana and Ohio plants were idle when acquired; however, we expect production at these plants to begin by the end of the first quarter of 2010. We acquired our Wisconsin plant in early February 2010. This plant was producing ethanol at the time of our acquisition, and ethanol production has continued under our ownership.

For additional information regarding these acquisitions, see Note 2 of Notes to Consolidated Financial Statements.

[1] Ethanol is commercially produced using either the wet mill or dry mill process. Wet milling involves

separating the grain kernel into its component parts (germ, fiber, protein, and starch) prior to fermentation. Our ethanol plants utilize the dry mill process, in which the entire grain kernel is ground into flour. The starch in the flour is converted to ethanol during the fermentation process, creating carbon dioxide and distillers grains.

2 In the fermentation process, nearly all of the starch in the grain is converted into ethanol and carbon dioxide, while the remaining nutrients (proteins, fats, minerals, and vitamins) undergo a concentration to yield modified distillers grains, or, after further drying, dried distillers grains. Distillers grains generally are an economical partial replacement for corn, soybean,

and dicalcium phosphate in livestock, swine, and poultry feeds.

Table of Contents

**RETAIL**

Our retail segment operations include the following:

- sales of transportation fuels at retail stores and unattended self-service cardlocks,
- sales of convenience store merchandise and services in retail stores, and
- sales of home heating oil to residential customers.

We are one of the largest independent retailers of refined products in the central and southwest United States and eastern Canada. Our retail operations are segregated geographically into two groups: Retail U.S. and Retail Canada.

**Retail U.S.**

Sales in Retail U.S. represent sales of transportation fuels and convenience store merchandise and services through our company-operated retail sites. For the year ended December 31, 2009, total sales of refined products through Retail U.S. s retail sites averaged approximately 118,600 BPD. In addition to transportation fuels, our company-operated convenience stores sell snacks, candy, beer, fast foods, cigarettes, and fountain drinks. Our stores also offer services such as ATM access, car wash facilities, money orders, lottery tickets, and video rentals. On December 31, 2009, we had 991 company-operated sites in Retail U.S. (of which 79% were owned and 21% were leased). Our company-operated stores are operated primarily under the brand name Corner Store®. Transportation fuels sold in our Retail U.S. stores are sold primarily under the Valero® brand.

**Retail Canada**

Sales in Retail Canada include the following:

- sales of refined products and convenience store merchandise through our company-operated retail sites and cardlocks,
- sales of refined products through sites owned by independent dealers and jobbers, and
- sales of home heating oil to residential customers.

Retail Canada includes retail operations in eastern Canada where we are a major supplier of refined products serving Quebec, Ontario, and the Atlantic Provinces of Newfoundland, Nova Scotia, New Brunswick, and Prince Edward Island. For the year ended December 31, 2009, total retail sales of refined products through Retail Canada averaged approximately 75,200 BPD. Transportation fuels are sold under the Ultramar® brand through a network of 824 outlets throughout eastern Canada. On December 31, 2009, we owned or leased 396 retail stores in Retail Canada and distributed gasoline to 428 dealers and independent jobbers. In addition, Retail Canada operates 83 cardlocks, which are card- or key-activated, self-service, unattended stations that allow commercial, trucking, and governmental fleets to buy transportation fuel 24 hours a day. Retail Canada operations also include a large home heating oil business that provides home heating oil to approximately 142,000 households in eastern Canada. Our home heating oil business tends to be seasonal to the extent of increased demand for home heating oil during the winter.

Table of Contents

## RISK FACTORS

**Our financial results are affected by volatile refining margins and global economic activity.**

Our financial results are primarily affected by the relationship, or margin, between refined product prices and the prices for crude oil and other feedstocks. Our cost to acquire feedstocks and the price at which we can ultimately sell refined products depend upon several factors beyond our control, including regional and global supply of and demand for crude oil, gasoline, diesel, and other feedstocks and refined products. These in turn depend on, among other things, the availability and quantity of imports, the production levels of domestic and foreign suppliers, levels of refined product inventories, productivity and growth (or the lack thereof) of U.S. and global economies, U.S. relationships with foreign governments, political affairs, and the extent of governmental regulation. Historically, refining margins have been volatile, and we believe they will continue to be volatile in the future.

Continued economic turmoil and hostilities, including the threat of future terrorist attacks, could affect the economies of the United States and other countries. Lower levels of economic activity during periods of recession could result in declines in energy consumption, including declines in the demand for and consumption of our refined products, which could cause our revenues and margins to decline and limit our future growth prospects.

Refining margins are also significantly impacted by additional refinery conversion capacity through the expansion of existing refineries or the construction of new refineries. Worldwide refining capacity expansions may result in refining production capability far exceeding refined product demand, which would have a significant adverse effect on refining margins.

A significant portion of our profitability is derived from the ability to purchase and process crude oil feedstocks that historically have been cheaper than benchmark crude oils, such as West Texas Intermediate crude oil. These crude oil feedstock differentials vary significantly depending on overall economic conditions and trends and conditions within the markets for crude oil and refined products, and they could decline in the future, which would have a negative impact on our earnings.

**Uncertainty and illiquidity in credit and capital markets can impair our ability to obtain credit and financing on acceptable terms, and can adversely affect the financial strength of our business partners.**

Our ability to obtain credit and capital depends in large measure on capital markets and liquidity factors over which we exert no control. Our ability to access credit and capital markets may be restricted at a time when we would like, or need, to access those markets, which could have an impact on our flexibility to react to changing economic and business conditions. In addition, the cost and availability of debt and equity financing may be adversely impacted by unstable or illiquid market conditions. Protracted uncertainty and illiquidity in these markets also could have an adverse impact on our lenders, commodity hedging counterparties, or our customers, causing them to fail to meet their obligations to us. In addition, decreased returns on pension fund assets may also materially increase our pension funding requirements.

We currently maintain investment-grade ratings by Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s), and Fitch Ratings (Fitch) on our senior unsecured debt. (Ratings from credit agencies are not recommendations to buy, sell, or hold our securities. Each rating should be evaluated independently of any other rating.) We cannot provide assurance that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Specifically, if S&P, Moody s, or Fitch were to downgrade our long-term rating, particularly below investment grade, our borrowing costs would increase, which could adversely affect our ability to attract potential investors and our

Table of Contents

funding sources could decrease. In addition, we may not be able to obtain favorable credit terms from our suppliers or they may require us to provide collateral, letters of credit, or other forms of security which would increase our operating costs. As a result, a downgrade in our credit ratings could have a material adverse impact on our future operations and financial position.

From time to time, our cash needs may exceed our internally generated cash flow, and our business could be materially and adversely affected if we were unable to obtain necessary funds from financing activities. From time to time, we may need to supplement our cash generation with proceeds from financing activities. We have existing revolving credit facilities, committed letter of credit facilities, and an accounts receivable sales facility to provide us with available financing to meet our ongoing cash needs. Uncertainty and illiquidity continues to exist in the financial markets that may materially impact the ability of the participating financial institutions to fund their commitments to us under our various financing facilities. In light of these uncertainties and the volatile current market environment, we can make no assurances that we will be able to obtain the full amount of the funds available under our financing facilities to satisfy our cash requirements. Our failure to do so could have a material adverse effect on our operations and financial position.

**Compliance with and changes in environmental laws, including proposed climate change laws and regulations, could adversely affect our performance.**

The principal environmental risks associated with our operations are emissions into the air and releases into the soil, surface water, or groundwater. Our operations are subject to extensive federal, state, and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, greenhouse gas emissions, and characteristics and composition of gasoline and diesel fuels. If we violate or fail to comply with these laws and regulations, we could be fined or otherwise sanctioned. Because environmental laws and regulations are becoming more stringent and new environmental laws and regulations are continuously being enacted or proposed, such as those relating to greenhouse gas emissions and climate change (*e.g.*, California s AB-32 Global Warming Solutions Act, the U.S. House of Representatives American Clean Energy and Security Act of 2009, the U.S. Senate Committee on Environment and Public Works Clean Energy Jobs and American Power Act of 2009, initiatives and rulemaking following the EPA s 2009 Endangerment and Cause or Contribute Findings for Greenhouse Gases Under Section 202(a) of the Clean Air Act ), the level of expenditures required for environmental matters could increase in the future. Future legislative action and regulatory initiatives could result in changes to operating permits, additional remedial actions, material changes in operations, increased capital expenditures and operating costs, increased costs of the goods we sell, and decreased demand for our products that cannot be assessed with certainty at this time.

Some of the proposed federal cap-and-trade legislation would require businesses that emit greenhouse gases to buy emission credits from the government, other businesses, or through an auction process. In addition, refiners would be obligated to purchase emission credits associated with the transportation fuels (gasoline, diesel, and jet fuel) sold and consumed in the United States. As a result of such a program, we would be required to purchase emission credits for greenhouse gas emissions resulting from our own operations as well as from the fuels we sell. Although it is not possible at this time to predict the final form of a cap-and-trade bill (or whether such a bill will be passed by Congress), any new federal restrictions on greenhouse gas emissions including a cap-and-trade program could result in material increased compliance costs, additional operating restrictions for our business, and an increase in the cost of the products we produce, which could have a material adverse effect on our financial position, results of operations, and liquidity.

Table of Contents

**Disruption of our ability to obtain crude oil could adversely affect our operations**.

A significant portion of our feedstock requirements is satisfied through supplies originating in the Middle East, Africa, Asia, North America, and South America. We are, therefore, subject to the political, geographic, and economic risks attendant to doing business with suppliers located in, and supplies originating from, those areas. If one or more of our supply contracts were terminated, or if political events disrupt our traditional crude oil supply, we believe that adequate alternative supplies of crude oil would be available, but it is possible that we would be unable to find alternative sources of supply. If we are unable to obtain adequate crude oil volumes or are able to obtain such volumes only at unfavorable prices, our results of operations could be materially adversely affected, including reduced sales volumes of refined products or reduced margins as a result of higher crude oil costs.

In addition, the U.S. government can prevent or restrict us from doing business in or with foreign countries. These restrictions, and those of foreign governments, could limit our ability to gain access to business opportunities in various countries. Actions by both the United States and foreign countries have affected our operations in the past and will continue to do so in the future.

**Competitors that produce their own supply of feedstocks, have more extensive retail outlets, or have greater financial resources may have a competitive advantage**.

The refining and marketing industry is highly competitive with respect to both feedstock supply and refined product markets. We compete with many companies for available supplies of crude oil and other feedstocks and for outlets for our refined products. We do not produce any of our crude oil feedstocks. Many of our competitors, however, obtain a significant portion of their feedstocks from company-owned pr