Home Federal Bancorp, Inc.
Form 10-K
December 15, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2008

or

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

Commission File Number: 000-52995

HOME FEDERAL BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	68-0666697
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 12th Avenue South, Nampa, Idaho	83651
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (208) 466-4634

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	Nasdaq Global Market
(Title of Each Class)	(Name of Each Exchange on Which Registered)

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 [ ] No [X]

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 [ ] No [X]

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 [X] No [ ]

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. [X]

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of December 3, 2008, there were 17,359,427 shares of the registrant's common stock outstanding. The aggregate market value of the voting stock held by non−affiliates of the registrant based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Global Market on March 31, 2008, was approximately $202,565,269 (16,880,439 shares at $12.00 per share).

DOCUMENTS INCORPORATED BY REFERENCE

Part II and Part III - Portions of the Registrant's definitive Proxy Statement for its 2009 Annual Meeting of Stockholders.

HOME FEDERAL BANCORP, INC.
2008 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

Forward-Looking Statements

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains forward-looking statements, which can be identified by the use of words such as "believes," "expects," "anticipates," "estimates" or similar expressions. Forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- general economic conditions, including real estate values, either nationally or in our market area, that are worse than expected;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- the credit risk of lending activities, including risks related to construction and development lending and commercial and small business banking;
- changes in the level and trend of loan delinquencies and write-offs;
- results of examinations by banking regulators;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- our ability to successfully manage our growth;
- changes in the value of mortgage servicing rights;
- legislative or regulatory changes that adversely affect our business;
- adverse changes in the securities markets; and
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board.

Any of the forward-looking statements that we make in this annual report and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements.

1

PART I

Item 1. Business

Organization.

Home Federal Bancorp, Inc. ("old Home Federal Bancorp") was organized as a federally chartered stock corporation at the direction of Home Federal Savings and Loan Association of Nampa ("Association") in connection with its mutual holding company reorganization ("Reorganization"). On December 6, 2004, the Association completed the Reorganization and minority stock offering. In connection with the Reorganization, the Association converted to a federally chartered stock savings bank and changed its name to Home Federal Bank (the "Bank"). Old Home Federal Bancorp sold 40.06% of its outstanding shares of common stock (6,083,500 shares) to the public and issued 59.04% of its outstanding shares of common stock (8,979,246 shares) to Home Federal MHC, the mutual holding company parent of old Home Federal Bancorp. In connection with the Reorganization, the old Home Federal Bancorp received $53.6 million in net proceeds after deducting expenses, and issued an additional 146,004 shares and $365,010 in cash to the Home Federal Foundation, Inc. (the "Foundation"), a charitable foundation established as part of the Reorganization.

On May 11, 2007, the Boards of Directors of Home Federal MHC, old Home Federal Bancorp, Inc., and Home Federal Bank adopted a Plan of Conversion and Reorganization (the "Conversion") pursuant to which Home Federal Bank reorganized from the mutual holding company structure to the stock holding company structure. Pursuant to the terms of the Plan, Home Federal MHC converted to a federal interim stock savings bank and simultaneously merged with and into Home Federal Bank, with Home Federal Bank as the survivor. Additionally, Home Federal Bancorp, Inc. converted to a federal interim stock savings bank and simultaneously merged with and into Home Federal Bank, with Home Federal Bank as the survivor. Home Federal Bank then formed a new stock holding company, Home Federal Bancorp, Inc. ("we", "us", the "Company" or "Home Federal Bancorp"), that serves as the holding company for Home Federal Bank. Home Federal Bancorp, Inc., is a Maryland corporation. The conversion was completed on December 19, 2007.

As part of the Conversion, a total of 9,384,000 new shares of the Company were sold at $10 per share in subscription, community and syndicated community offerings through which the Company received proceeds of approximately $87.8 million, net of offering costs of approximately $5.9 million. The Company contributed $48.0 million or approximately 50% of the net proceeds to the Bank in the form of a capital contribution. The Company loaned $8.2 million to the Bank's Employee Stock Ownership Plan (the "ESOP") and the ESOP used those funds to acquire 816,000 shares of the Company's common stock at $10 per share. As part of the Conversion, shares of outstanding common stock of the old Home Federal Bancorp were exchanged for 1.136 shares of the Company's common stock. No fractional shares were issued. Instead, cash was paid to stockholders at $10 per share for any fractional shares that would otherwise be issued. The exchange resulted in an additional 853,133 outstanding shares of the Company for a total of 17,326,169 outstanding shares as of the closing of the Conversion on December 19, 2007.

The Conversion was accounted for as reorganization in corporate form with no change in the historical basis of the Company's assets, liabilities or stockholders' equity. All references to the number of shares outstanding, including references for purposes of calculating per share amounts, are restated to give retroactive recognition to the exchange ratio applied in the Conversion.

Business.

Home Federal Bancorp's business activity is the ownership of the outstanding capital stock of Home Federal Bank and management of the investment of offering proceeds retained from the Reorganization and the Conversion. Home

Federal Bancorp neither owns nor leases any property but instead uses the premises, equipment and other property of Home Federal Bank with the payment of appropriate management fees, as required by applicable law and regulations. In the future, Home Federal Bancorp may acquire or organize other operating subsidiaries; however, there are no current plans to do so. Home Federal Bancorp has no significant assets, other than cash and cash equivalents, mortgage-backed securities and all of the outstanding shares of Home Federal, and no significant liabilities.

Home Federal Bank was founded in 1920 as a building and loan association and reorganized as a federal mutual savings and loan association in 1936. Home Federal Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable legal limits under the Deposit Insurance Fund. The Bank has been a member of the Federal Home Loan Bank ("FHLB") System since 1937. Home Federal Bank is regulated by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC").

We are in the business of attracting deposits from consumers and businesses in our market areas and utilizing those deposits to originate loans. We offer a wide range of loan products to meet the credit needs of our customers. Historically, lending activities have been primarily directed toward the origination of residential and commercial real estate loans. Residential real estate lending activities have been primarily focused on first mortgages on owner occupied, one- to four-family residential properties. The Bank now originates nearly all of its one- to four- family residential loans for sale in the secondary market.

The Board of Directors and the management team have recently undertaken efforts to change the Company's strategy from that of a traditional thrift to a full-service community bank. This transition includes a reduced reliance on one- to four- family loans originated for the Bank's portfolio. As a result, the Bank's lending activities have expanded to include commercial business lending, including commercial real estate and builder finance. While continuing our commitment to residential lending through our secondary market program, management expects commercial lending to become increasingly important for the Company.

At September 30, 2008, the Company had total assets of $725.1 million, net loans of $459.8 million, deposit accounts of $372.9 million and stockholders' equity of $205.2 million.

Operating Lines

Home Federal Bancorp's sole subsidiary is Home Federal Bank. Management has determined that the Bank as a whole is the sole reporting unit and that no reportable operating segments exist other than Home Federal Bank.

Market Area

Home Federal Bank serves the Boise, Idaho, and surrounding metropolitan statistical area ("MSA") known as the Treasure Valley region of southwestern Idaho, which includes Ada, Canyon, Elmore and Gem counties. We have 15 full-service banking offices, one loan center, 16 automated teller machines and Internet banking services. Included in our 15 full-service banking offices are five Wal-Mart in-store branch locations. For more information, see "Item 2. Properties."

Home Federal Bank maintains its largest branch presence in Ada County with eight locations, followed by Canyon County with five offices, including Home Federal Bank's corporate headquarters in Nampa. As of June 30, 2008, the Bank had a 5.12% market share of the FDIC-insured deposits in these two counties, ranking it seventh among all insured depository institutions in these counties, according to the FDIC. The two remaining branches are located in Elmore and Gem counties.

The local economy is primarily urban with Boise, the state capital of Idaho, being the most populous of the markets that the Bank serves, followed by Nampa, the state's second largest city. Nearly 40% of the state's population lives and works in the four counties of Ada, Canyon, Elmore and Gem that are served by Home Federal Bank. Of the four counties, Ada County has the largest population followed by Canyon County. The counties of Elmore and Gem are more rural and less populated than Ada and Canyon counties.

The following table summarizes key economic and demographic information about these market areas:

	Ada	Canyon	Elmore	Gem	US
Median Household Income	$ 64,149	$48,365	$ 45,108	$ 43,426	$ 54,749
Change 2000 – 2008	38.9%	34.9%	27.9%	26.2%	29.8%
Population	384,329	186,223	29,849	17,475	
Change 2000 – 2008	27.7%	41.7%	2.5%	15.1%	9.9%
Unemployment Rate					
September 2008	4.5%	5.6%	4.8%	5.5%	6.1%
September 2007	2.1	2.5	2.9	2.0	4.7
Total Industry Deposits (millions)					
June 2008	$ 6,244	$ 1,467	$ 355	$ 145	
June 2007	6,549	1,525	349	156	
Home Federal Bank's Deposit					
Market Share, June 2008	2.6%	15.0%	15.6%	21.7%	

Source: FDIC, SNL Financial, Bureau of Labor Statistics

The regional economy is well diversified with government, healthcare, manufacturing, high technology, call centers and construction providing sources of employment. In addition, agriculture and related industries continue to be key components of the economy in southwestern Idaho. Generally, sources of employment are concentrated in Ada and Canyon counties and include the headquarters of Micron Technology, J.R. Simplot Company and Boise Cascade, LLC. Other major employers include Hewlett-Packard, Supervalu, two regional medical centers and Idaho state government agencies. Boise is also home to Boise State University, the state's largest university.

The Treasure Valley has enjoyed strong population growth over the last five years, which led to an increase in residential community developments. The current economic slowdown, which has been led by significant deterioration in residential home sales, has caused acceleration in unemployment in the Treasure Valley. This slowdown has created an over-supply of speculative construction and land development projects. While the unemployment rate in the Treasure Valley is still below the national average, the rate of increase has outpaced national unemployment levels in the second half of fiscal 2008. Micron Technologies and Hewlett Packard have each announced layoffs, which will continue to place strain on the local economy and residential housing. Continued deterioration in the local economy may result in additional losses in the Bank's loan portfolio, restrict management's ability to execute the Company's growth plans or impact the Bank's liquidity due to a shrinking deposit base.

Operating Strategy

Management's operating strategy centers on the continued development into a full service, community-oriented bank from a traditional savings and loan business model. Our goal is to continue to enhance our franchise value and earnings through controlled growth in our banking operations, especially small business lending, while maintaining the community-oriented customer service and sales focus that has characterized our success to date. In order to be successful in this objective and increase stockholder value, we are committed to the following strategies:

Continue Growing in Our Existing Markets. We believe there is a large customer base in our market that is dissatisfied with the service received from larger regional banks. By offering quicker decision making in the delivery of banking products and services, offering customized products where appropriate, and providing customer access to our senior managers, we hope to distinguish ourselves from larger, regional banks operating in our market areas.

Expand Our Product Offerings. We intend to continue our emphasis on originating commercial lending products that diversify our loan portfolio by increasing the percentage of assets consisting of higher-yielding commercial real estate and commercial business loans with higher risk adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, while still providing high quality loan products for single-family residential borrowers. We also intend to selectively add products to provide diversification of revenue sources and to capture our customer's full relationship by cross selling our loan and deposit products and services to our customers.

Focus on our Branch Expansion. Branch expansion has played a significant role in our ability to grow loans, deposits and customer relationships. We are planning two new branches that we intend to open within the next 12 months. We recently completed construction of a branch in Boise, Idaho, that opened in October 2008. Our long-term strategy is to build two or three branches per year if appropriate sites can be identified and obtained. We will also actively search for appropriate acquisitions to enhance our ability to deliver products and services in our existing markets and to expand into surrounding markets.

Increase Our Core Transaction Deposits. A fundamental part of our overall strategy is to improve both the level and the mix of deposits that serve as a funding base for asset growth. By growing demand deposit accounts and other transaction accounts, we intend to reduce our reliance on higher-cost certificates of deposit and borrowings such as advances from the Federal Home Loan Bank of Seattle. In order to expand our core deposit franchise, we are focusing on introducing additional products and services to obtain money market and time deposits by bundling them with other consumer services. Business deposits are being pursued by the introduction of cash management products and by specific targeting of small business customers.

Hire Experienced Employees With a Customer Service Focus. Our ability to continue to attract and retain banking professionals with strong business banking and service skills, community relationships and significant knowledge of our markets is key to our success. We believe that by focusing on hiring experienced bankers who are established in their communities, we enhance our market position and add profitable growth opportunities. We emphasize to our employees the importance of delivering exemplary customer service and seeking opportunities to build further relationships with our customers. Our goal is to compete by relying on the strength of our customer service and relationship banking approach.

Develop and nurture an internal management culture which is driven by a focus on profitability, productivity and accountability for results and which responds proactively to the challenge of change. The primary method for reinforcing our culture is the comprehensive application of our "Pay for Performance" total compensation program. Every employee has clearly defined accountabilities and performance standards that tie directly or indirectly to our profitability. All incentive compensation is based on specific profitability measures, sales volume goals or a combination of specific profitability measures and individual performance goals. This approach encourages all employees to focus on our profitability and has created an environment that embraces new products, services and delivery systems.

Lending Activities

General. Historically, our principal lending activity has consisted of the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences and loans for the construction of one- to four-family residences. We also originate consumer loans, with an emphasis on home equity loans and lines of credit. Commensurate with our transformation from a traditional thrift to a full-service community bank, we have been offering commercial real estate loans and to a lesser extent, multi-family loans, primarily in the Treasure Valley. While we intend to increase our commercial and industrial loans, a substantial portion of our loan portfolio is currently secured by real estate, either as primary or secondary collateral, located in the Treasure Valley.

At September 30, 2008, the maximum amount of credit that we could have extended to any one borrower and the borrower's related entities under applicable regulations was $22.7 million. Our internal policy limits loans to one borrower and the borrower's related entities to 80% of the regulatory limit, or $18.2 million. At September 30, 2008, the Company had no borrowing relationship with outstanding balances in excess of this amount. Our largest single borrower relationship at September 30, 2008 included four loans totaling $5.1 million secured by commercial real estate. The second largest lending relationship included five commercial real estate loans totaling $5.0 million. Our third largest borrower relationship was five commercial real estate secured loans and one single family construction loan totaling $5.0 million. The fourth largest lending relationship was two commercial acquisition and development loans and a letter of credit totaling $4.6 million. The fifth largest lending relationship included four commercial real estate secured loans and a home equity line of credit totaling $4.1 million. All of these loans, including those made to corporations, have personal guarantees in place as an additional source of repayment and are secured by property or assets in our primary market area. These loans were performing according to their terms at September 30, 2008.

During fiscal year 2008, our Senior Management Loan Committee, which consists of the President and Chief Executive Officer, the Executive Vice President/Commercial Banking and the Senior Vice President/Chief Credit Officer, was authorized to approve loans to one borrower or a group of related borrowers of up to $7.0 million in the aggregate with no single loan exceeding $3.5 million. Loan requests in excess of $7.0 million in the aggregate were presented to the Loan Committee of the Board of Directors for review and approval. The entire board comprises that committee. In November 2008, we changed these limits to reduce the aggregate lending limit for the Senior Management Loan Committee to $5.0 million, with relationships over $5.0 million requiring board approval. The single loan limit was increased to $5.0 million at that time.

Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	At September 30,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(in thousands)									

The Thrift Plan allows participants who are called to active duty military service and who are on military leave for a period of 179 days or more to make withdrawals of all or any portion of their account.

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

Participant Loans
Participants may borrow a minimum of $500. The maximum loan amount a participant may have outstanding is restricted to the lesser of:

(a) $50,000, reduced by the excess of (i) the highest outstanding balance of the participant's loans during a one-year period over (ii) the participant's then currently outstanding loan balance on the day any new loan is made, or
(b) one-half of the current value of the participant's vested interest in his Thrift Plan accounts.

The term of any loan may not exceed five years unless the loan is for the purchase of a participant's principal residence, in which case the term of the loan shall not exceed 15 years. The balance of the participant's account and vested portion of his employer account serve as security for the loan. Loans bear interest at a reasonable rate as established by the Administrative Committee, presently at prime plus 1%. As of December 31, 2010, interest rates on outstanding participant loans ranged from 4.25% to 10.5% and maturity dates ranged from January 2011 to December 2025. Loan repayments of principal and interest are made through payroll deductions or as otherwise determined. Participants may have two loans outstanding under the Thrift Plan at any time.

Plan Expenses
The Thrift Plan pays a portion of its administrative expenses, including trustee fees and administrative fees. Plan administrative expenses not paid by the Thrift Plan are paid by Valero. Valero also provides certain other services at no cost to the Thrift Plan. Investment expenses relating to individual participant transactions, such as redemption fees, are deducted from the respective participant's account.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The financial statements of the Thrift Plan are prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles (GAAP).

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Thrift Plan. The statement of net assets available for benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The statement of changes in net assets available for benefits is prepared on a contract value basis. See Note 3 for a discussion of the change to the Retirement Preservation Trust from a fully benefit-responsive investment reported at contract value in 2009 to a short-term bond fund reported at fair value as of December 31, 2010.

Management has evaluated subsequent events that occurred after December 31, 2010 through the filing of this Form 11-K. Any material subsequent events that occurred during this time have been properly recognized or disclosed in these financial statements.

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

Significant Accounting Policies
Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the amounts of assets and changes therein reported in the financial statements and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Valuation of Investments
The Thrift Plan's investments are stated at fair value as described in Note 4.

In January 2010, Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures," was modified to require (i) separate disclosure of the amounts of significant transfers between Level 1 and Level 2 and reasons for the transfers and (ii) information about purchases, sales, issuances, and settlements relating to Level 3 measurements. In addition, ASC Topic 820 clarified existing disclosure requirements for (i) disclosures by class of assets and liabilities and (ii) a description of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This guidance was effective for fiscal years beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which will be effective for fiscal years beginning after December 31, 2010. The adoption by the Thrift Plan of this guidance effective January 1, 2010 did not affect the Thrift Plan's net assets and changes in net assets, but did result in additional disclosures, which are provided in Note 4.

Income Recognition
Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation (depreciation) in fair value of investments consists of net realized gains and losses on the sale of investments and net unrealized appreciation (depreciation) of investments.

Participant Loans
Participant loans are measured at their unpaid principal balance plus any accrued but unpaid interest.

In September 2010, ASC Topic 962, "Plan Accounting–Defined Contribution Pension Plans," was modified to require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. This guidance was effective for fiscal years ending after December 15, 2010 and was applied retrospectively to all prior periods presented. The adoption by the Thrift Plan of this guidance effective December 31, 2010 did not affect the Thrift Plan's net assets and changes in net assets, but did result in the reclassification of participant loans as of December 31, 2009 from investments to receivables.

Withdrawals by Participants
Withdrawals by participants are recorded when paid.

11

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

Risks and Uncertainties
The Thrift Plan's investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

3. INVESTMENTS

Investments that represent 5 percent or more of the Thrift Plan's net assets available for benefits are as follows:

	December 31,	
	2010	2009
Valero Energy Corporation common stock	$248,364,581	$198,925,762
Retirement Preservation Trust (contract value of $- and $186,780,325, respectively)	176,695,457	174,147,856
American Funds EuroPacific Growth Fund	107,362,293	104,366,389
American Funds Growth Fund of America	75,063,564	70,572,134

The Thrift Plan's investment in shares of Valero common stock represents 20.2 percent and 18.5 percent of total investments at fair value as of December 31, 2010 and 2009, respectively. The closing price for Valero common stock was $23.12 and $16.75 on December 31, 2010 and 2009, respectively. As of June 23, 2011, the closing price for Valero common stock was $24.76.

During the years ended December 31, 2010 and 2009, the Thrift Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

	Years Ended December 31,	
	2010	2009
Valero Energy Corporation common stock	$71,018,433	$(58,956,090)
Mutual funds	36,654,933	81,443,918
Common/collective trusts	24,339,931	33,810,049
Self-directed investments:		
Common stock	13,122,030	18,257,583
Mutual funds	2,886,650	7,600,683
Corporate bonds	273,447	155,801
Preferred stock	13,374	130,621
Government bonds	5,923	(104,348)
Net appreciation in fair value of investments	$148,314,721	$82,338,217

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2010 and 2009, dividend income included $2,230,531 and $7,435,942, respectively, of dividends paid on Valero common stock.

Through October 6, 2010, the Retirement Preservation Trust was invested in fully benefit-responsive contracts and reported at contract value. Effective October 6, 2010, the trustee of the Retirement Preservation Trust approved a resolution to terminate the Retirement Preservation Trust and commence liquidation of its assets, changing it from a stable value fund measured at contract value to a short-term bond fund measured at fair value. Effective February 19, 2011, the Thrift Plan transferred all balances in the Retirement Preservation Trust to the Federated Capital Preservation Fund, a collective trust.

The average yield earned by the Thrift Plan on its investment in the Retirement Preservation Trust was 2.35% for the year ended December 31, 2009. The average yield earned by the Thrift Plan on its investment in the Retirement Preservation Trust with an adjustment to reflect the actual interest rate credited to participants in the Thrift Plan was 2.57% for the year ended December 31, 2009.

4. FAIR VALUE MEASUREMENTS

A fair value hierarchy (Level 1, Level 2, or Level 3) is used to categorize fair value amounts based on the quality of inputs used to measure fair value. Accordingly, fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are based on quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Thrift Plan uses appropriate valuation techniques based on the available inputs to measure the fair values of its applicable assets and liabilities. When available, the Thrift Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The valuation methods used to measure the Thrift Plan’s financial instruments at fair value are as follows:

- Valero Energy Corporation common stock, mutual funds, and self-directed investments are measured at fair value using a market approach based on quotations from national securities exchanges and are categorized in Level 1 of the fair value hierarchy.
- The money market securities represent interest-bearing cash and are therefore categorized in Level 1 of the fair value hierarchy.
- Common/collective trusts are stated at fair value as determined by the issuers of the funds based on the fair values of the underlying assets and are categorized in Level 2 of the fair value hierarchy. The fair value of the Retirement Preservation Trust for the year ended December 31, 2009, which at that time primarily held investments in fully benefit-responsive contracts, was calculated by the issuer using a discounted cash flow model, which considered (i) recent fee bids as determined by recognized dealers, (ii) discount rate, and (iii) the duration of the underlying portfolio securities. There are no imposed restrictions as to the redemption of these investments.

The tables below present information about the Thrift Plan’s assets measured at fair value on a recurring basis and indicate the fair value hierarchy of the inputs utilized to determine the fair values as of December 31, 2010 and 2009.

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2010
Valero Energy Corporation common stock	$248,364,581	$—	$—	$248,364,581
Common/collective trusts:				
LifePath Index funds	—	143,190,167	—	143,190,167
KeyBank Employee Benefit Small Cap Value Trust	—	7,917,422	—	7,917,422
Equity Index Trust	—	48,031,766	—	48,031,766
Retirement Preservation Trust	—	176,695,457	—	176,695,457
Mutual funds:				
Foreign funds	107,362,293	—	—	107,362,293
Large-cap funds	185,899,062	—	—	185,899,062
Mid-cap funds	30,456,999	—	—	30,456,999
Small-cap funds	17,599,889	—	—	17,599,889
Bond funds	53,039,036	—	—	53,039,036
Self-directed investments:				
Common stock:				
Domestic	99,451,752	—	—	99,451,752
Foreign ADRs	6,866,163	—	—	6,866,163
Other common stock	23,770,128	—	—	23,770,128
Mutual funds:				
Equity	22,071,334	—	—	22,071,334
Debt	9,737,548	—	—	9,737,548
Money market securities	43,202,675	—	—	43,202,675
Other self-directed investments	3,282,501	—	—	3,282,501
Investments at fair value	$851,103,961	$375,834,812	$—	$1,226,938,773

During the year ended December 31, 2010, there were no transfers between assets classified as Level 1 and Level 2.

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total as of December 31, 2009
Valero Energy Corporation common stock	$198,925,762	$—	$—	$198,925,762
Common/collective trusts:				
BlackRock LifePath Portfolios	—	123,468,352	—	123,468,352
KeyBank Employee Benefit Small Cap Value Trust	—	6,564,730	—	6,564,730
Equity Index Trust	—	42,795,852	—	42,795,852
Retirement Preservation Trust	—	174,147,856	—	174,147,856
Mutual funds:				
Foreign funds	104,366,389	—	—	104,366,389
Large-cap funds	170,526,875	—	—	170,526,875
Mid-cap funds	22,465,663	—	—	22,465,663
Small-cap funds	10,736,645	—	—	10,736,645
Bond funds	48,115,661	—	—	48,115,661
Self-directed investments:				
Common stock	102,968,966	—	—	102,968,966
Mutual funds	31,209,873	—	—	31,209,873
Money market securities	33,174,124	—	—	33,174,124
Other self-directed investments	4,030,603	—	—	4,030,603
Investments at fair value	$726,520,561	$346,976,790	$—	$1,073,497,351

5. PARTY-IN-INTEREST TRANSACTIONS

Certain Thrift Plan investments are shares of common/collective trusts managed by an affiliate of BANA, the trustee of the Thrift Plan and a party-in-interest with respect to the Thrift Plan. In addition, the Thrift Plan allows for loans to participants and investment in Valero's common stock. Valero, the sponsor of the Thrift Plan and a party-in-interest with respect to the Thrift Plan, provides accounting and administrative services at no cost to the Thrift Plan. These transactions are covered by an exemption from the "prohibited transactions" provisions of ERISA and the Code.

6. PLAN TERMINATION

Although it has not expressed any intent to do so, Valero has the right under the Thrift Plan to terminate the Thrift Plan at any time subject to the provisions of ERISA. In the event of any termination of the Thrift Plan or complete discontinuance of employer contributions, participants would become 100 percent vested in their employer accounts.

15

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

7. TAX STATUS

The Internal Revenue Service has determined and informed the Thrift Plan sponsor by a letter dated March 24, 2009, that the Thrift Plan is designed in accordance with applicable sections of the Code. Although the Thrift Plan has been amended since receiving the determination letter, the Administrative Committee believes that the Thrift Plan is designed and is currently being operated in compliance with the applicable requirements of the Code.

8. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

Fully benefit-responsive investment contracts are recorded on the Form 5500 at fair value but are adjusted to contract value for financial statement presentation. Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit requests that have been processed and approved for payment prior to December 31, but not paid as of that date. Deemed distributions of participant loans are recorded on the Form 5500 upon default by participants; such amounts continue to be reported as participant loans in the financial statements until the participants' termination and actual distribution from the Thrift Plan.

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	December 31, 2010	2009
Net assets available for benefits per the financial statements	$1,268,293,331	$1,126,367,760
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	—	(12,632,469)
Amounts allocated to withdrawing participants	(475,783)	(473,761)
Deemed distributions of participant loans	(792,100)	(834,987)
Net assets available for benefits per the Form 5500	$1,267,025,448	$1,112,426,543

The following is a reconciliation of withdrawals by participants per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	Years Ended December 31, 2010	2009
Withdrawals by participants per the financial statements	$125,253,072	$95,746,922
Amounts allocated to withdrawing participants as of end of year	475,783	473,761
Amounts allocated to withdrawing participants as of beginning of year	(473,761)	(345,073)
Benefits paid to participants per the Form 5500	$125,255,094	$95,875,610

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

The following is a reconciliation of investment income per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	Years Ended December 31,	
	2010	2009
Investment income per the financial statements	$167,039,386	$105,294,122
Adjustment from contract value to fair value for fully benefit-responsive investment contracts as of end of year	—	(12,632,469)
Adjustment from contract value to fair value for fully benefit-responsive investment contracts as of beginning of year	12,632,469	28,009,150
Investment income per the Form 5500	$179,671,855	$120,670,803

The following is a reconciliation of deemed distributions of participant loans per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan:

	Years Ended December 31,	
	2010	2009
Deemed distributions of participant loans per the financial statements	$—	$—
Deemed distributions of participant loans as of end of year	792,100	834,987
Deemed distributions of participant loans as of beginning of year	(834,987)	(858,161)
Deemed distributions of participant loans per the Form 5500	$(42,887)	$(23,174)

17

VALERO ENERGY CORPORATION THRIFT PLAN
EIN: 74-1828067
Plan No. 002

Schedule H, Line 4i–Schedule of Assets (Held at End of Year)
As of December 31, 2010

	Identity of Issue/Description of Investment	Current Value
	Common stock:	
*	Valero Energy Corporation	$248,364,581
	Common/collective trusts:	
	LifePath Index 2015 Fund	13,056,387
	LifePath Index 2020 Fund	25,935,130
	LifePath Index 2025 Fund	34,896,321
	LifePath Index 2030 Fund	26,417,030
	LifePath Index 2035 Fund	15,848,522
	LifePath Index 2040 Fund	12,679,701
	LifePath Index 2045 Fund	6,341,249
	LifePath Index 2050 Fund	3,601,872
	LifePath Index 2055 Fund	128,668
	LifePath Index Retirement Fund	4,285,287
	KeyBank Employee Benefit Small Cap Value Trust	7,917,422
*	Equity Index Trust	48,031,766
*	Retirement Preservation Trust	176,695,457
	Total common/collective trusts	375,834,812
	Mutual funds:	
	American Funds EuroPacific Growth Fund	107,362,293
	American Funds Growth Fund of America	75,063,564
	BlackRock Basic Value Fund, Inc.	54,244,547
	BlackRock Small Cap Growth Equity Fund	17,599,889
	Pioneer Bond Fund	53,039,036
	Vanguard Mid-Cap Index Fund (Investor Class)	30,456,999
	Vanguard PRIMECAP Fund (Admiral Class)	56,590,951
	Total mutual funds	394,357,279
	Self-directed investments	208,382,101
*	Participant loans (interest rates range from 4.25% to 10.5%; maturity dates range from January 2011 to December 2025)	40,108,557
		$1,267,047,330

* Party-in-interest to the Thrift Plan.

See accompanying report of independent registered public accounting firm.

18

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Valero Energy Corporation Benefit Plans Administrative Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

VALERO ENERGY CORPORATION THRIFT PLAN

By: /s/ Donna M. Titzman
Donna M. Titzman
Chairman of the Valero Energy Corporation
Benefit Plans Administrative Committee
Vice President and Treasurer, Valero Energy Corporation

Date: June 24, 2011

19