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Penn Virginia GP Holdings, L.P.

Form 10-Q

November 05, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period September 30, 2009  
ended

or

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

For the transition period from to

Commission File 1-33171  
Number:

PENN VIRGINIA GP HOLDINGS, L.P.

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(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

20-5116532  
(I.R.S. Employer Identification No.)

THREE RADNOR CORPORATE CENTER, SUITE 300  
100 MATSONFORD ROAD  
RADNOR, PA 19087

(Address of principal executive offices)

(Zip Code)

(610) 687-8900

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(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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 ("Exchange Act") 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 ☐ No

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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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes ☐ No ☐

Indicate by a 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 ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a Smaller reporting company ☐  
smaller reporting company)

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

As of November 5, 2009, 39,074,500 common units representing limited partner interests were outstanding.

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PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1 Financial Statements

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME – unaudited  
 (in thousands, except per unit data)

|                                                                                        | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|----------------------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                                                        | 2009                                | 2008       | 2009                               | 2008       |
| <b>Revenues</b>                                                                        |                                     |            |                                    |            |
| Natural gas midstream                                                                  | \$ 118,443                          | \$ 241,282 | \$ 348,882                         | \$ 601,127 |
| Coal royalties                                                                         | 29,821                              | 33,308     | 90,448                             | 88,911     |
| Coal services                                                                          | 1,869                               | 1,815      | 5,502                              | 5,518      |
| Other                                                                                  | 5,492                               | 8,871      | 16,971                             | 23,039     |
| Total revenues                                                                         | 155,625                             | 285,276    | 461,803                            | 718,595    |
| <b>Expenses</b>                                                                        |                                     |            |                                    |            |
| Cost of midstream gas purchased                                                        | 92,355                              | 211,262    | 285,129                            | 513,778    |
| Operating                                                                              | 9,030                               | 9,041      | 26,938                             | 24,553     |
| Taxes other than income                                                                | 1,005                               | 969        | 3,208                              | 3,017      |
| General and administrative                                                             | 8,447                               | 7,618      | 25,399                             | 22,057     |
| Depreciation, depletion and amortization                                               | 17,851                              | 16,903     | 51,971                             | 41,322     |
| Total expenses                                                                         | 128,688                             | 245,793    | 392,645                            | 604,727    |
| Operating income                                                                       | 26,937                              | 39,483     | 69,158                             | 113,868    |
| <b>Other income (expense)</b>                                                          |                                     |            |                                    |            |
| Interest expense                                                                       | (6,505)                             | (7,060)    | (18,486)                           | (17,366)   |
| Other                                                                                  | 344                                 | (4,118)    | 1,020                              | (3,072)    |
| Derivatives                                                                            | (2,810)                             | 15,742     | (12,005)                           | (6,424)    |
| Net income                                                                             | \$ 17,966                           | \$ 44,047  | \$ 39,687                          | \$ 87,006  |
| Less net income attributable to noncontrolling interests                               | (7,794)                             | (23,783)   | (14,327)                           | (43,878)   |
| Net income attributable to Penn Virginia GP Holdings, L.P.                             | \$ 10,172                           | \$ 20,264  | \$ 25,360                          | \$ 43,128  |
| Net income per unit attributable to Penn Virginia GP Holdings, L.P., basic and diluted | \$ 0.26                             | \$ 0.52    | \$ 0.65                            | \$ 1.10    |
| Weighted average number of units outstanding, basic and diluted                        | 39,075                              | 39,075     | 39,075                             | 39,075     |

The accompanying notes are an integral part of these condensed consolidated financial statements.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS – unaudited  
(in thousands)

|                                                             | September 30,<br>2009 | December 31,<br>2008 |
|-------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                               |                       |                      |
| <b>Current assets</b>                                       |                       |                      |
| Cash and cash equivalents                                   | \$ 21,194             | \$ 18,338            |
| Accounts receivable, net of allowance for doubtful accounts | 60,023                | 73,267               |
| Derivative assets                                           | 7,322                 | 30,431               |
| Other current assets                                        | 4,304                 | 4,263                |
| <b>Total current assets</b>                                 | <b>92,843</b>         | <b>126,299</b>       |
| <b>Property, plant and equipment</b>                        |                       |                      |
| Property, plant and equipment                               | 1,154,849             | 1,093,526            |
| Accumulated depreciation, depletion and amortization        | (244,855)             | (198,407)            |
| Net property, plant and equipment                           | 909,994               | 895,119              |
| <b>Equity investments</b>                                   |                       |                      |
| Equity investments                                          | 87,520                | 78,442               |
| Intangible assets, net                                      | 87,108                | 92,672               |
| Other long-term assets                                      | 41,309                | 35,142               |
| <b>Total assets</b>                                         | <b>\$ 1,218,774</b>   | <b>\$ 1,227,674</b>  |
| <b>Liabilities and Partners' Capital</b>                    |                       |                      |
| <b>Current liabilities</b>                                  |                       |                      |
| Accounts payable                                            | \$ 46,760             | \$ 60,442            |
| Accrued liabilities                                         | 10,170                | 11,039               |
| Deferred income                                             | 3,043                 | 4,842                |
| Derivative liabilities                                      | 10,900                | 13,585               |
| <b>Total current liabilities</b>                            | <b>70,873</b>         | <b>89,908</b>        |
| <b>Deferred income</b>                                      |                       |                      |
| Deferred income                                             | 6,502                 | 6,150                |
| <b>Other liabilities</b>                                    |                       |                      |
| Other liabilities                                           | 17,469                | 18,078               |
| <b>Derivative liabilities</b>                               |                       |                      |
| Derivative liabilities                                      | 4,323                 | 6,915                |
| <b>Long-term debt</b>                                       |                       |                      |
| Long-term debt                                              | 628,100               | 568,100              |
| <b>Partners' capital</b>                                    |                       |                      |
| Penn Virginia GP Holdings, L.P. partners' capital           | 251,729               | 269,542              |
| Noncontrolling interests of subsidiaries                    | 239,778               | 268,981              |
| <b>Total partners' capital</b>                              | <b>491,507</b>        | <b>538,523</b>       |
| <b>Total liabilities and partners' capital</b>              | <b>\$ 1,218,774</b>   | <b>\$ 1,227,674</b>  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – unaudited  
(in thousands)

|                                                                                   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                   | 2009                                | 2008      | 2009                               | 2008      |
| <b>Cash flows from operating activities</b>                                       |                                     |           |                                    |           |
| Net income                                                                        | \$ 17,966                           | \$ 44,047 | \$ 39,687                          | \$ 87,006 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |           |                                    |           |
| Depreciation, depletion and amortization                                          | 17,851                              | 16,903    | 51,971                             | 41,322    |
| Commodity derivative contracts:                                                   |                                     |           |                                    |           |
| Total derivative losses (gains)                                                   | 3,668                               | (14,239)  | 14,234                             | 10,552    |
| Cash settlements of derivatives                                                   | (314)                               | (14,054)  | 4,135                              | (33,279)  |
| Non-cash interest expense                                                         | 1,416                               | 1,175     | 3,149                              | 1,543     |
| Equity earnings, net of distributions received                                    | (1,386)                             | (1,409)   | (2,456)                            | (1,415)   |
| Other                                                                             | 1,202                               | (896)     | 570                                | (1,337)   |
| Changes in operating assets and liabilities                                       | 1,892                               | (10,853)  | 3,540                              | (11,277)  |
| Net cash provided by operating activities                                         | 42,295                              | 20,674    | 114,830                            | 93,115    |
| <b>Cash flows from investing activities</b>                                       |                                     |           |                                    |           |
| Acquisitions                                                                      | (27,648)                            | (156,791) | (29,510)                           | (253,031) |
| Additions to property, plant and equipment                                        | (11,523)                            | (16,062)  | (43,781)                           | (54,902)  |
| Other                                                                             | 300                                 | 982       | 872                                | 1,657     |
| Net cash used in investing activities                                             | (38,871)                            | (171,871) | (72,419)                           | (306,276) |
| <b>Cash flows from financing activities</b>                                       |                                     |           |                                    |           |
| Distributions to partners                                                         | (30,323)                            | (28,884)  | (90,297)                           | (78,276)  |
| Proceeds from borrowings                                                          | 52,000                              | 242,000   | 93,000                             | 366,800   |
| Repayments of borrowings                                                          | (21,000)                            | (65,400)  | (33,000)                           | (220,800) |
| Net proceeds from issuance of partners' capital                                   | -                                   | -         | -                                  | 138,015   |
| Other                                                                             | -                                   | (3,454)   | (9,258)                            | (4,074)   |
| Net cash provided by (used in) financing activities                               | 677                                 | 144,262   | (39,555)                           | 201,665   |
| Net increase (decrease) in cash and cash equivalents                              | 4,101                               | (6,935)   | 2,856                              | (11,496)  |
| Cash and cash equivalents – beginning of period                                   | 17,093                              | 25,942    | 18,338                             | 30,503    |
| Cash and cash equivalents – end of period                                         | \$ 21,194                           | \$ 19,007 | \$ 21,194                          | \$ 19,007 |
| <b>Supplemental disclosure:</b>                                                   |                                     |           |                                    |           |
| Cash paid for interest                                                            | \$ 6,444                            | \$ 6,764  | \$ 18,446                          | \$ 17,136 |
| <b>Noncash investing activities:</b>                                              |                                     |           |                                    |           |
| Issuance of PVR units for acquisition                                             | \$ 15,171                           |           | \$ 15,171                          |           |
| PVG units given as consideration for acquisition                                  | \$ 68,021                           |           | \$ 68,021                          |           |
| Other liabilities                                                                 | \$ 4,673                            |           | \$ 4,673                           |           |

The accompanying notes are an integral part of these condensed consolidated financial statements.



PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – unaudited  
September 30, 2009

1. Organization

Penn Virginia GP Holdings, L.P. (the “Partnership,” “we,” “us” or “our”) is a publicly traded Delaware limited partnership formed in June 2006 that owns three types of equity interests in Penn Virginia Resource Partners, L.P. (“PVR”), a publicly traded Delaware limited partnership. As of September 30, 2009, the equity interests are (1) a 2% general partner interest in PVR, which we hold through our 100% ownership interest in Penn Virginia Resource GP, LLC, PVR’s general partner, (2) all of the incentive distribution rights (“IDRs”) in PVR, which we hold through our 100% ownership interest in PVR’s general partner and (3) an approximately 37% limited partner interest in PVR. With the IDRs, we receive an increasing percentage of PVR’s quarterly distributions of available cash from operating surplus after certain levels of cash distributions have been achieved. Our only cash generating assets consist of our equity interests in PVR. Due to our control of the general partner of PVR, the financial results of PVR are included in our condensed consolidated financial statements. However, PVR functions with a capital structure that is independent of ours, consisting of its own debt instruments and publicly traded common units.

Our general partner is an indirect wholly owned subsidiary of Penn Virginia Corporation (“Penn Virginia”). As of September 30, 2009, Penn Virginia and its subsidiaries owned an approximately 51% limited partner interest in us.

PVR currently conducts operations in two business segments: (i) coal and natural resource management and (ii) natural gas midstream.

We, through our ownership of the general partner of PVR, manage the operations and activities of PVR. Most of PVR’s personnel are employees of Penn Virginia or its affiliates. PVR’s general partner is liable for all of PVR’s debts, to the extent not paid from PVR’s assets, except for indebtedness or other obligations that are made specifically non-recourse to it.

We do not receive any management fee or other compensation for the management of PVR. We and our affiliates are reimbursed for expenses incurred on PVR’s behalf. These expenses include the costs of employee, officer and director compensation and benefits properly allocable to PVR and all other expenses necessary or appropriate to conduct the business of, and allocable to, PVR. PVR’s partnership agreement provides that PVR’s general partner will determine the expenses that are allocable to PVR in any reasonable manner determined by PVR in its sole discretion.

2. Basis of Presentation

Unless otherwise indicated, for the purposes of our condensed consolidated financial statements, the “Partnership,” “we,” “us” or “our” refers to Penn Virginia GP Holdings, L.P. and subsidiaries.

Our condensed consolidated financial statements include the accounts of the Partnership, PVR and all of PVR’s wholly owned subsidiaries. Investments in non-controlled entities over which we exercise significant influence are accounted for using the equity method. Intercompany balances and transactions have been eliminated in consolidation. Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These statements involve the use of estimates and judgments where appropriate. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of our condensed consolidated financial statements have been included. Our condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be

expected for the year ending December 31, 2009. Certain reclassifications have been made to conform to the current period's presentation. In preparing the accompanying condensed consolidated financial statements, we have evaluated subsequent events through November 5, 2009.

### 3. Fair Value Measurements

Effective January 1, 2009, we adopted the new accounting standard on fair value measurements and disclosures applicable to both our financial and nonfinancial assets and liabilities that are measured and reported on a fair value basis. Our financial instruments that are subject to fair value disclosures consist of cash and cash equivalents, accounts receivable, accounts payable, derivative instruments and PVR's long-term debt. We have followed consistent methods and assumptions to estimate the fair values as more fully described in our Annual Report on Form 10-K for the year ended December 31, 2008. At September 30, 2009, the carrying values of all of these financial instruments approximated fair value.

The following table summarizes the valuation of certain assets and liabilities by category as of September 30, 2009 (in thousands):

| Description                                   | Fair Value Measurements at September 30, 2009, Using |                                               |                                         |       |                                           |
|-----------------------------------------------|------------------------------------------------------|-----------------------------------------------|-----------------------------------------|-------|-------------------------------------------|
|                                               | Quoted Prices in                                     |                                               |                                         |       | Significant Unobservable Inputs (Level 3) |
|                                               | Fair Value Measurements at September 30, 2009        | Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other |                                           |
| Interest rate swap assets - noncurrent        | \$ 1,138                                             | \$ -                                          | \$ 1,138                                |       | \$ -                                      |
| Interest rate swap liabilities - current      | (8,188)                                              | -                                             | (8,188)                                 |       | -                                         |
| Interest rate swap liabilities - noncurrent   | (4,117)                                              | -                                             | (4,117)                                 |       | -                                         |
| Commodity derivative assets - current         | 7,322                                                | -                                             | 7,322                                   |       | -                                         |
| Commodity derivative assets - noncurrent      | 417                                                  | -                                             | 417                                     |       | -                                         |
| Commodity derivative liabilities - current    | (2,712)                                              | -                                             | (2,712)                                 |       | -                                         |
| Commodity derivative liabilities - noncurrent | (206)                                                | -                                             | (206)                                   |       | -                                         |
| Total                                         | \$ (6,346)                                           | \$ -                                          | \$ (6,346)                              |       | \$ -                                      |

See Note 4, "Derivative Instruments," for the effects of derivative instruments on our condensed consolidated financial statements.

### 4. Derivative Instruments

#### PVR Natural Gas Midstream Segment Commodity Derivatives

PVR determines the fair values of its derivative agreements using quoted forward prices for the respective commodities as of the end of the reporting period and discount rates adjusted for the credit risk of PVR's counterparties if the derivative is in an asset position and PVR's own credit risk if the derivative is in a liability position. The following table sets forth PVR's positions as of September 30, 2009 for commodities related to natural gas midstream revenues and cost of midstream gas purchased:

|                            | Average    |            | Weighted Average Price |                 |        | Fair Value at<br>September 30,<br>2009<br>(in thousands) |
|----------------------------|------------|------------|------------------------|-----------------|--------|----------------------------------------------------------|
|                            | Volume Per |            | Additional<br>Put      |                 |        |                                                          |
|                            | Day        | Swap Price | Option                 | Put             | Call   |                                                          |
| Crude Oil Three-Way Collar | (barrels)  |            |                        | (\$ per barrel) |        |                                                          |
| Fourth Quarter 2009        | 1,000      |            | 70.00                  | 90.00           | 119.25 | \$ 1,433                                                 |

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|                                                                 |           |                 |       |       |
|-----------------------------------------------------------------|-----------|-----------------|-------|-------|
| Frac Spread Collar                                              | (MMBtu)   | (\$ per MMBtu)  |       |       |
| Fourth Quarter 2009                                             | 6,000     | 9.09            | 13.94 | 864   |
| Crude Oil Collar                                                | (barrels) | (\$ per barrel) |       |       |
| First Quarter 2010 through                                      |           |                 |       |       |
| Fourth Quarter 2010                                             | 750       | 70.00           | 81.25 | 228   |
| First Quarter 2010 through                                      |           |                 |       |       |
| Fourth Quarter 2010                                             | 1,000     | 68.00           | 80.00 | (155) |
| Natural Gas Purchase Swap                                       | (MMBtu)   | (\$ per MMBtu)  |       |       |
| First Quarter 2010 through                                      |           |                 |       |       |
| Fourth Quarter 2010                                             | 5,000     | 5.815           |       | 709   |
| Settlements to be received in subsequent period                 |           |                 |       | 1,742 |
| Natural gas midstream segment commodity derivatives - net asset |           |                 | \$    | 4,821 |

See the “Financial Statement Impact of Derivatives” section below for the impact of PVR’s natural gas midstream commodity derivatives on our condensed consolidated financial statements.

## PVR Interest Rate Swaps

PVR has entered into interest rate swaps (the “PVR Interest Rate Swaps”) to establish fixed interest rates on a portion of the outstanding borrowings under its revolving credit facility (the “PVR Revolver”). The following table sets forth the PVR Interest Rate Swap positions at September 30, 2009:

| Dates                         | Notional Amounts<br>(in millions) | Weighted-Average Fixed<br>Rate |
|-------------------------------|-----------------------------------|--------------------------------|
| Until March 2010              | \$ 310.0                          | 3.54%                          |
| March 2010 - December 2011    | \$ 250.0                          | 3.37%                          |
| December 2011 - December 2012 | \$ 100.0                          | 2.09%                          |

During the first quarter of 2009, PVR discontinued hedge accounting for all of the PVR Interest Rate Swaps. Accordingly, subsequent fair value gains and losses for the PVR Interest Rate Swaps are recognized in the derivatives line item on our condensed consolidated statements of income. At September 30, 2009, a \$2.2 million loss remained in accumulated other comprehensive income (“AOCI”) related to the PVR Interest Rate Swaps. The \$2.2 million loss will be recognized in interest expense as the PVR Interest Rate Swaps settle.

PVR reported a (i) net derivative liability of \$11.2 million at September 30, 2009 and (ii) loss in AOCI of \$2.2 million at September 30, 2009 related to the PVR Interest Rate Swaps. In connection with periodic settlements, PVR reclassified a total of \$2.6 million of net hedging losses on the PVR Interest Rate Swaps from AOCI to interest expense during the nine months ended September 30, 2009. See the “Financial Statement Impact of Derivatives” section below for the impact of the PVR Interest Rate Swaps on our condensed consolidated financial statements.

## Financial Statement Impact of Derivatives

The following table summarizes the effects of PVR’s derivative activities, as well as the location of the gains and losses, on our condensed consolidated statements of income for the three and nine months ended September 30, 2009 and 2008 (in thousands):

|                                                                                         | Location of gain (loss)<br>on derivatives recognized<br>in income | Three Months Ended September 30,<br>2009 | Three Months Ended September 30,<br>2008 | Nine Months Ended September 30,<br>2009 | Nine Months Ended September 30,<br>2008 |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------|------------------------------------------|-----------------------------------------|-----------------------------------------|
| Derivatives de-designated as hedging instruments:                                       |                                                                   |                                          |                                          |                                         |                                         |
| Interest rate contracts (1)                                                             | Interest expense                                                  | \$ (857)                                 | \$ (854)                                 | \$ (2,600)                              | \$ (1,213)                              |
| Decrease in net income resulting from derivatives de-designated as hedging instruments  |                                                                   | \$ (857)                                 | \$ (854)                                 | \$ (2,600)                              | \$ (1,213)                              |
| Derivatives not designated as hedging instruments:                                      |                                                                   |                                          |                                          |                                         |                                         |
| Interest rate contracts                                                                 | Derivatives                                                       | \$ (3,947)                               | \$ (1,333)                               | \$ (3,251)                              | \$ (1,333)                              |
| Commodity contracts                                                                     | Derivatives                                                       | 1,137                                    | 15,572                                   | (8,754)                                 | (9,219)                                 |
| Decrease in net income resulting from derivatives not designated as hedging instruments |                                                                   | \$ (2,810)                               | \$ 14,239                                | \$ (12,005)                             | \$ (10,552)                             |

|                                                                           |                  |            |           |             |             |
|---------------------------------------------------------------------------|------------------|------------|-----------|-------------|-------------|
| Total decrease in net income resulting from derivatives                   |                  | \$ (3,667) | \$ 13,385 | \$ (14,605) | \$ (11,765) |
| Realized and unrealized derivative impact:                                |                  |            |           |             |             |
| Cash received (paid) for commodity and interest rate contract settlements | Derivatives      | (314)      | (14,054)  | 4,135       | (33,279)    |
| Cash paid for interest rate contract settlements                          | Interest expense | -          | (854)     | (370)       | (1,213)     |
| Unrealized derivative losses (2)                                          |                  | (3,353)    | 28,293    | (18,370)    | 22,727      |
| Total decrease in net income resulting from derivatives                   |                  | \$ (3,667) | \$ 13,385 | \$ (14,605) | \$ (11,765) |

(1) Represents amounts reclassified out of AOCI and into interest expense. At September 30, 2009, a \$2.2 million loss remained in AOCI related to the PVR Interest Rate Swaps on which PVR discontinued hedge accounting.

(2) Represents net unrealized gains (losses) in the natural gas midstream, cost of midstream gas purchased, interest expense and derivatives line items on our condensed consolidated statements of income. For the three months ended September 30, 2009, the net unrealized derivative losses were composed of a \$2.5 million unrealized loss on the PVR Interest Rate Swaps and a \$0.9 million unrealized loss on PVR's commodity derivatives. For the nine months ended September 30, 2009, the net unrealized derivative losses were composed of a \$0.5 million unrealized loss on the PVR Interest Rates Swaps and a \$17.9 million unrealized loss on PVR's commodity derivatives.

The following table summarizes the fair value of PVR's derivative instruments, as well as the locations of these instruments, on our condensed consolidated balance sheets as of September 30, 2009 and December 31, 2008 (in thousands):

|                                                           |                                            | Fair values as of September 30, 2009 |                        | Fair values as of December 31, 2008 |                        |
|-----------------------------------------------------------|--------------------------------------------|--------------------------------------|------------------------|-------------------------------------|------------------------|
| Balance Sheet Location                                    |                                            | Derivative Assets                    | Derivative Liabilities | Derivative Assets                   | Derivative Liabilities |
| <b>Derivatives de-designated as hedging instruments:</b>  |                                            |                                      |                        |                                     |                        |
| Interest rate contracts                                   | Derivative liabilities - current           | \$ -                                 | \$ -                   | \$ -                                | \$ 1,228               |
| Interest rate contracts                                   | Derivative liabilities - noncurrent        | -                                    | -                      | -                                   | 1,842                  |
| Total derivatives de-designated as hedging instruments    |                                            | \$ -                                 | \$ -                   | \$ -                                | \$ 3,070               |
| <b>Derivatives not designated as hedging instruments:</b> |                                            |                                      |                        |                                     |                        |
| Interest rate contracts                                   | Derivative assets/liabilities - current    | \$ -                                 | \$ 8,188               | \$ -                                | \$ 4,663               |
| Interest rate contracts                                   | Derivative assets/liabilities - noncurrent | 1,138                                | 4,117                  | -                                   | 5,073                  |
| Commodity contracts                                       | Derivative assets/liabilities - current    | 7,322                                | 2,712                  | 30,431                              | 7,694                  |
| Commodity contracts                                       | Derivative assets/liabilities - noncurrent | 417                                  | 206                    | -                                   | -                      |
| Total derivatives not designated as hedging instruments   |                                            | \$ 8,877                             | \$ 15,223              | \$ 30,431                           | \$ 17,430              |
| Total fair value of derivative instruments                |                                            | \$ 8,877                             | \$ 15,223              | \$ 30,431                           | \$ 20,500              |

See Note 3, "Fair Value Measurements," for a description of how the above-described financial instruments are valued.

The following table summarizes our interest expense for the three and nine months ended September 30, 2009 and 2008, including the effect of the PVR Interest Rate Swaps (in thousands):

| Source                 | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|------------------------|----------------------------------|----------|---------------------------------|-----------|
|                        | 2009                             | 2008     | 2009                            | 2008      |
| Interest on borrowings | \$ 5,648                         | \$ 6,206 | \$ 16,112                       | \$ 16,828 |
| Capitalized interest   | -                                | -        | (226)                           | (675)     |
| Interest rate swaps    | 857                              | 854      | 2,600                           | 1,213     |
| Total interest expense | \$ 6,505                         | \$ 7,060 | \$ 18,486                       | \$ 17,366 |

At September 30, 2009, we reported a commodity derivative asset related to the PVR natural gas midstream segment of \$4.8 million. The contracts underlying such commodity derivative asset are with four counterparties, all of which are investment grade financial institutions, and such commodity derivative asset is substantially concentrated with one of those counterparties. This concentration may impact our overall credit risk, either positively or negatively, in that these counterparties may be similarly affected by changes in economic or other conditions. PVR neither paid nor received collateral with respect to its derivative positions. The maximum amount of loss due to credit risk if counterparties to PVR's derivative asset positions fail to perform according to the terms of the contracts would be equal to the fair value of the contracts as of September 30, 2009. No significant uncertainties related to the

collectability of amounts owed to PVR exist with regard to these counterparties.

The above-described hedging activity represents cash flow hedges. As of September 30, 2009, neither we nor PVR owned any derivative instruments that were classified as fair value hedges or trading securities or that contained credit risk contingencies.

## 5. Long-Term Debt

In March 2009, PVR increased the size of the PVR Revolver from \$700.0 million to \$800.0 million, which resulted in \$9.3 million of debt issuance costs that will be amortized over the remaining life of the PVR Revolver. The PVR Revolver is secured with substantially all of PVR's assets. The December 2011 maturity date for the PVR Revolver did not change. As of September 30, 2009, all of PVR's long-term debt was indebtedness outstanding under the PVR Revolver. PVR's debt is non-recourse to us. Interest is payable at a base rate plus an applicable margin of up to 1.25% if PVR selects the base rate borrowing option under the PVR Revolver, or at a rate derived from the London Interbank Offered Rate ("LIBOR") plus an applicable margin ranging from 1.75% to 2.75% if PVR selects the LIBOR-based borrowing option. As of September 30, 2009 and December 31, 2008, the weighted average interest rate on borrowings outstanding under the PVR Revolver was approximately 2.5% and 3.2%.

## 6. Noncontrolling Interests

Effective January 1, 2009, we adopted the new accounting standard on noncontrolling interests. This standard requires that the noncontrolling interests in PVR be reported on our condensed consolidated balance sheets as a separate item within partners' capital. Net income attributable to the noncontrolling interests in PVR is separately presented on the face of our condensed consolidated statements of income. Our condensed consolidated financial statements have been retroactively adjusted to reflect the adoption of this standard. Comprehensive income attributable to the noncontrolling interests in PVR is separately presented in our schedule of comprehensive income. This standard also requires that gains from the sales of subsidiary units be recorded directly to partners' capital. If we sell sufficient controlling interests in our subsidiaries to require deconsolidation of those subsidiaries, then we expect to record a gain or loss on our condensed consolidated statements of income.

The following is a reconciliation of the carrying amount of partners' capital attributable to us, partners' capital attributable to the noncontrolling interests in PVR and total partners' capital (in thousands):

|                                                        | Penn Virginia GP<br>Holdings, L.P.<br>Unitholders | Noncontrolling<br>Interests | Total      | Comprehensive<br>Income (Loss) |
|--------------------------------------------------------|---------------------------------------------------|-----------------------------|------------|--------------------------------|
| Balance at December 31, 2008                           | \$ 269,542                                        | \$ 268,981                  | \$ 538,523 |                                |
| Distributions paid                                     | (44,544)                                          | (45,753)                    | (90,297)   |                                |
| Unit based compensation                                | -                                                 | 1,500                       | 1,500      |                                |
| Comprehensive income:                                  |                                                   |                             |            |                                |
| Net income                                             | 25,360                                            | 14,327                      | 39,687     | 39,687                         |
| Unrealized losses on derivative activities             | (196)                                             | (310)                       | (506)      | (506)                          |
| Reclassification adjustments for derivative activities | 1,567                                             | 1,033                       | 2,600      | 2,600                          |
| Balances at September 30, 2009                         | \$ 251,729                                        | \$ 239,778                  | 491,507    | \$ 41,781                      |
| Balance at December 31, 2007                           | \$ 224,502                                        | \$ 156,957                  | 381,459    |                                |
| Distributions paid                                     | (39,856)                                          | (38,419)                    | (78,275)   |                                |
| Unit price adjustment for PVG units per EITF 99-12     | 2,474                                             | -                           | 2,474      |                                |
| PVR issuance of units                                  | -                                                 | 157,109                     | 157,109    |                                |
| Recognition of SAB 51 gain                             | 43,522                                            | (43,522)                    | -          |                                |
| Comprehensive income:                                  |                                                   |                             |            |                                |
| Net income                                             | 43,128                                            | 43,878                      | 87,006     | 87,006                         |
| Unrealized losses on derivative activities             | (681)                                             | (498)                       | (1,179)    | (1,179)                        |
| Reclassification adjustments for derivative activities | 2,083                                             | 3,111                       | 5,194      | 5,194                          |
| Balances at September 30, 2008                         | \$ 275,172                                        | \$ 278,616                  | \$ 553,788 | \$ 91,021                      |

## 7. Cash Distributions

The following table reflects the allocation of total cash distributions paid by us during the three and nine months ended September 30, 2009 and 2008 (in thousands, except per unit data):

|                               | Three Months Ended September<br>30, |           | Nine Months Ended September<br>30, |           |
|-------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| Unitholders                   | 2009                                | 2008      | 2009                               | 2008      |
| Public unitholders            | \$ 3,419                            | \$ 3,239  | \$ 10,257                          | \$ 7,850  |
| Penn Virginia Corporation     | 11,429                              | 10,828    | 34,287                             | 32,006    |
| Total cash distributions paid | \$ 14,848                           | \$ 14,067 | \$ 44,544                          | \$ 39,856 |

|                                        |    |      |    |      |    |      |    |      |
|----------------------------------------|----|------|----|------|----|------|----|------|
| Total cash distributions paid per unit | \$ | 0.38 | \$ | 0.36 | \$ | 1.14 | \$ | 1.02 |
|----------------------------------------|----|------|----|------|----|------|----|------|

On November 18, 2009, we will pay a \$0.38 per unit quarterly distribution to unitholders of record on November 6, 2009. This per unit distribution will remain unchanged from the previous distribution paid on August 20, 2009.

## 8. Related-Party Transactions

### General and Administrative

Penn Virginia charges us and PVR for certain corporate administrative expenses which are allocable to us and PVR and its subsidiaries. When allocating general corporate expenses, consideration is given to property and equipment, payroll and general corporate overhead. Any direct costs are paid by us or PVR, as applicable. Total corporate administrative expenses charged to us, PVR and PVR's subsidiaries totaled \$1.7 million for both the three months ended September 30, 2009 and 2008 and \$5.0 million for both the nine months ended September 30, 2009 and 2008. Of these amounts, Penn Virginia charged us \$0.1 million and \$0.2 million for the three months ended September 30, 2009 and 2008 and \$0.3 million and \$0.4 million for the nine months ended September 30, 2009 and 2008 and charged PVR \$1.6 million and \$1.5 million for the three months ended September 30, 2009 and 2008 and \$4.7 million and \$4.6 million for the nine months ended September 30, 2009 and 2008. These costs are reflected in the general and administrative expenses line item on our condensed consolidated statements of income. At least annually, our management performs an analysis of general corporate expenses based on time allocations of shared employees and other pertinent factors. Based on this analysis, our management believes that the allocation methodologies used are reasonable.

### Accounts Payable—Affiliate

Amounts payable to related parties totaled \$4.3 million and \$8.1 million as of September 30, 2009 and December 31, 2008. These amounts are primarily due to a wholly owned subsidiary of Penn Virginia, Penn Virginia Oil & Gas, L.P. ("PVOG LP"), and are related to the natural gas gathering and processing agreement between PVR East Texas Gas Processing, LLC ("PVR East Texas"), PVR's wholly owned subsidiary, and PVOG LP. See "—Gathering and Processing Revenues." These balances are included in the accounts payable line item on our condensed consolidated balance sheets.

### Marketing Revenues

PVOG LP and Connect Energy Services, LLC ("Connect Energy"), a wholly owned subsidiary of PVR, are parties to a Master Services Agreement effective September 1, 2006. Pursuant to the Master Services Agreement, Connect Energy markets all of PVOG LP's oil and gas production in Arkansas, Louisiana, Oklahoma and Texas for a fee equal to 1% of the net sales price (subject to specified limitations) received by PVOG LP for such production. The Master Services Agreement has a primary term of five years and automatically renews for additional one-year terms until terminated by either party. Under the Master Services Agreement, PVOG LP paid fees to Connect Energy of \$0.3 million and \$1.0 million for the three months ended September 30, 2009 and 2008 and \$1.1 million and \$2.5 million for the nine months ended September 30, 2009 and 2008. These marketing revenues are included in the other revenues line item on our condensed consolidated statements of income.

### Gathering and Processing Revenues

PVR East Texas and PVOG LP are parties to a Gas Gathering and Processing Agreement effective May 1, 2007. Pursuant to the Gas Gathering and Processing Agreement, PVR East Texas gathers and processes all of PVOG LP's current and future gas production in certain areas of the Bethany Field in East Texas and redelivers the natural gas liquids ("NGLs") to PVOG LP for a \$0.31 per one million British thermal units (MMBtu) service fee (with an annual CPI adjustment). The Gas Gathering and Processing Agreement has a primary term ending August 31, 2021 and automatically renews for additional one-year terms until terminated by either party. PVR East Texas began gathering and processing PVOG LP's gas in September 2008. Pursuant to the Gas Gathering and Processing Agreement, PVOG LP paid fees to PVR East Texas of \$1.1 million and \$0.7 million for the three months ended September 30, 2009 and 2008 and \$3.2 million and \$1.4 million in fees for the nine months ended September 30, 2009 and 2008. These

gathering and processing revenues are recorded in the natural gas midstream revenues line item on our condensed consolidated statements of income.

## Gas Purchases and Sales

From time to time, PVOG LP sells gas or NGLs to Connect Energy at PVR's Crossroads plant, and Connect Energy transports them to the marketing location and then resells them to third parties. The sales price received by PVOG LP from Connect Energy for such gas or NGLs equals the sales price received by Connect Energy for such gas or NGLs from the third parties. These purchase and sale transactions do not impact our gross margin, nor do they impact our operating income. In the three months ended September 30, 2009 and 2008, PVR recorded \$15.1 million and \$55.7 million of natural gas midstream revenues and \$15.1 million and \$55.7 million for the cost of midstream gas purchased related to the purchase of natural gas from PVOG LP and the subsequent sale of that gas to third parties. In the nine months ended September 30, 2009 and 2008, PVR recorded \$56.4 million and \$105.5 million of natural gas midstream revenues and \$56.4 million and \$105.5 million for the cost of midstream gas purchased related to the purchase of natural gas from PVOG LP and the subsequent sale of that gas to third parties. PVR takes title to the gas and NGLs prior to transporting them to third parties.

## 9. Unit-Based Compensation

The Penn Virginia Resource GP, LLC Fifth Amended and Restated Long-Term Incentive Plan (the "PVR LTIP") permits the grant of common units, deferred common units, restricted units and phantom units to employees and directors of its general partner and its affiliates. PVR recognized compensation expense of \$1.1 million and \$0.8 million for the three months ended September 30, 2009 and 2008 and \$3.9 million and \$2.4 million for the nine months ended September 30, 2009 and 2008 related to the granting of common and deferred common units under the PVR LTIP and the vesting of restricted units and phantom units granted under the PVR LTIP. Common units and deferred common units granted under the LTIP are immediately vested, and PVR recognizes compensation expense related to those grants on the grant date. Restricted units and phantom units granted under the PVR LTIP vest over a three-year period, with one-third vesting in each year, and PVR recognizes compensation expense related to those grants on a straight-line basis over the vesting period.

The PVG GP, LLC Amended and Restated Long-Term Incentive Plan (the "PVG LTIP") likewise permits the grant of common units, deferred common units, restricted units and phantom units to its employees and directors of its general partner and affiliates. We recognized compensation expense of \$0.1 million for both the three months ended September 30, 2009 and 2008 and \$0.3 million for both the nine months ended September 30, 2009 and 2008 related to the granting of deferred common units under the PVG LTIP.

Our and PVR's compensation expenses are recorded in the general and administrative expenses line item on our condensed consolidated statements of income.

## 10. Commitments and Contingencies

### Legal

We and PVR are involved, from time to time, in various legal proceedings arising in the ordinary course of business. While the ultimate results of these proceedings cannot be predicted with certainty, our management believes that these claims will not have a material effect on our financial position or results of operations.

### Environmental Compliance

As of September 30, 2009 and December 31, 2008, PVR's environmental liabilities were \$1.1 million and \$1.2 million, which represents PVR's best estimate of the liabilities as of those dates related to its coal and natural resource management and natural gas midstream businesses. PVR has reclamation bonding requirements with respect to certain unleased and inactive properties. Given the uncertainty of when a reclamation area will meet regulatory

standards, a change in this estimate could occur in the future.

### Mine Health and Safety Laws

There are numerous mine health and safety laws and regulations applicable to the coal mining industry. However, since PVR does not operate any mines and does not employ any coal miners, PVR is not subject to such laws and regulations. Accordingly, we have not accrued any related liabilities.

### Customer Credit Risk

For the nine months ended September 30, 2009, two PVR natural gas midstream segment customers accounted for \$83.0 million and \$49.2 million, or 18% and 11%, of our total consolidated revenues. At September 30, 2009, 23% of our consolidated accounts receivable related to these customers.

## 11. Segment Information

Our reportable segments are as follows:

- PVR Coal and Natural Resource Management—leasing of coal properties in exchange for royalty payments and other land management activities.
- PVR Natural Gas Midstream—natural gas processing, gathering and other related services.

The corporate and other line item primarily represents corporate functions.

The following tables present a summary of certain financial information relating to our segments for the three and nine months ended September 30, 2009 and 2008 and as of September 30, 2009 and December 31, 2008 (in thousands):

|                                                            | Revenues                         |            | Operating income (loss)          |           |
|------------------------------------------------------------|----------------------------------|------------|----------------------------------|-----------|
|                                                            | Three Months Ended September 30, |            | Three Months Ended September 30, |           |
|                                                            | 2009                             | 2008       | 2009                             | 2008      |
| Coal and natural resource management                       | \$ 35,179                        | \$ 41,660  | \$ 21,225                        | \$ 26,295 |
| Natural gas midstream                                      | 120,446                          | 243,616    | 6,591                            | 13,728    |
| Corporate and other                                        | -                                | -          | (879)                            | (540)     |
| Consolidated totals                                        | \$ 155,625                       | \$ 285,276 | \$ 26,937                        | \$ 39,483 |
| Interest expense                                           |                                  |            | (6,505)                          | (7,060)   |
| Other                                                      |                                  |            | 344                              | (4,118)   |
| Derivatives                                                |                                  |            | (2,810)                          | 15,742    |
| Net income attributable to noncontrolling interests        |                                  |            | (7,794)                          | (23,783)  |
| Net income attributable to Penn Virginia GP Holdings, L.P. |                                  |            | \$ 10,172                        | \$ 20,264 |

|                                      | Additions to property and equipment |            | DD&A expenses                    |           |
|--------------------------------------|-------------------------------------|------------|----------------------------------|-----------|
|                                      | Three Months Ended September 30,    |            | Three Months Ended September 30, |           |
|                                      | 2009                                | 2008       | 2009                             | 2008      |
| Coal and natural resource management | \$ 140                              | \$ 497     | \$ 7,999                         | \$ 8,794  |
| Natural gas midstream                | 39,031                              | 172,356    | 9,852                            | 8,109     |
| Consolidated totals                  | \$ 39,171                           | \$ 172,853 | \$ 17,851                        | \$ 16,903 |

|                                                            | Revenues                        |            | Operating income (loss)         |            |
|------------------------------------------------------------|---------------------------------|------------|---------------------------------|------------|
|                                                            | Nine Months Ended September 30, |            | Nine Months Ended September 30, |            |
|                                                            | 2009                            | 2008       | 2009                            | 2008       |
| Coal and natural resource management                       | \$ 108,575                      | \$ 111,010 | \$ 66,532                       | \$ 67,860  |
| Natural gas midstream                                      | 353,228                         | 607,585    | 4,604                           | 47,726     |
| Corporate and other                                        | -                               | -          | (1,978)                         | (1,718)    |
| Consolidated totals                                        | \$ 461,803                      | \$ 718,595 | \$ 69,158                       | \$ 113,868 |
| Interest expense                                           |                                 |            | (18,486)                        | (17,366)   |
| Other                                                      |                                 |            | 1,020                           | (3,072)    |
| Derivatives                                                |                                 |            | (12,005)                        | (6,424)    |
| Net income attributable to noncontrolling interests        |                                 |            | (14,327)                        | (43,878)   |
| Net income attributable to Penn Virginia GP Holdings, L.P. |                                 |            | \$ 25,360                       | \$ 43,128  |

|  | Additions to property and equipment | DD&A expenses |
|--|-------------------------------------|---------------|
|  | Nine Months Ended September 30,     |               |

|                                      | Nine Months Ended September 30, |            |           |           |
|--------------------------------------|---------------------------------|------------|-----------|-----------|
|                                      | 2009                            | 2008       | 2009      | 2008      |
| Coal and natural resource management | \$ 2,046                        | \$ 25,186  | \$ 23,557 | \$ 22,733 |
| Natural gas midstream                | 71,245                          | 282,747    | 28,414    | 18,589    |
| Consolidated totals                  | \$ 73,291                       | \$ 307,933 | \$ 51,971 | \$ 41,322 |

|                                      | Total assets at    |                   |
|--------------------------------------|--------------------|-------------------|
|                                      | September 30, 2009 | December 31, 2008 |
| Coal and natural resource management | \$ 568,829         | \$ 600,418        |
| Natural gas midstream                | 639,966            | 618,402           |
| Corporate and other                  | 9,979              | 8,854             |
| Consolidated totals                  | \$ 1,218,774       | \$ 1,227,674      |

12. New Accounting Standards

In September 2009, the Financial Accounting Standards Board issued guidance on how to measure the fair value of a liability when a quoted price in an active market for the identical liability is not available. It also includes other clarifications and examples of how to measure the fair value of certain liabilities, including those that have limited or no observable data. We do not expect the guidance to have a material impact on our condensed consolidated financial statements, and we will adopt it on its effective date of December 31, 2009.

## Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations of Penn Virginia GP Holdings, L.P. and its subsidiaries (the "Partnership," "we," "us" or "our") should be read in conjunction with our condensed consolidated financial statements and the accompanying notes in Item 1, "Financial Statements."

### Overview of Our Business

#### General

We are a publicly traded Delaware limited partnership formed in June 2006. Our only cash generating assets consist of our interests in Penn Virginia Resource Partners, L.P., or PVR, which consist of the following:

- a 2% general partner interest in PVR, which we hold through our 100% ownership interest in Penn Virginia Resource GP, LLC, PVR's general partner;
- all of the incentive distribution rights, or IDRs, in PVR, which we hold through our 100% ownership interest in PVR's general partner; and
  - 19,587,049 common units of PVR, representing an approximately 37% limited partner interest in PVR.

All of our cash flows are generated from the cash distributions we receive with respect to the PVR equity interests we own. PVR is required by its partnership agreement to distribute, and it has historically distributed within 45 days of the end of each quarter, all of its cash on hand at the end of each quarter, less cash reserves established by its general partner in its sole discretion to provide for the proper conduct of PVR's business or to provide for future distributions. While we, like PVR, are structured as a limited partnership, our capital structure and cash distribution policy differ materially from those of PVR. Most notably, our general partner does not have an economic interest in us and is therefore not entitled to receive any distributions from us, and our capital structure does not include IDRs. Accordingly, our distributions are allocated exclusively to our common units.

Because we control the general partner of PVR, the financial results of PVR are included in our condensed consolidated financial statements. However, we and PVR both function with capital structures that are independent of each other, with both of us having publicly traded common units and PVR having its own debt instruments. We do not have any debt instruments on a stand-alone basis.

### Financial Presentation

We reflect our ownership interest in PVR on a consolidated basis, which means that our financial results are combined with PVR's financial results. The approximately 61% limited partner interest in PVR that we do not own, after the effect of IDRs, is reflected as noncontrolling interests in our results of operations. We have no separate operating activities apart from those conducted by PVR, and our cash flows currently consist of distributions from PVR on the partner interests, including the IDRs, that we own. Accordingly, the discussion and analysis of our financial position and results of operations in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" reflects the operating activities and results of operations of PVR.

### Overview of PVR's Business

PVR is a publicly traded Delaware limited partnership formed by Penn Virginia Corporation in 2001 that is principally engaged in the management of coal and natural resource properties and the gathering and processing of

natural gas in the United States.

# Selected Financial Data – Consolidated

The following table presents summary operating results for the three and nine months ended September 30, 2009 and 2008 (in thousands):

|                                                            | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|------------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                                            | 2009                             | 2008       | 2009                            | 2008       |
| Revenues                                                   | \$ 155,625                       | \$ 285,276 | \$ 461,803                      | \$ 718,595 |
| Expenses                                                   | 128,688                          | 245,793    | 392,645                         | 604,727    |
| Operating income                                           | 26,937                           | 39,483     | 69,158                          | 113,868    |
| Other income (expense)                                     | (8,971)                          | 4,564      | (29,471)                        | (26,862)   |
| Net income                                                 | \$ 17,966                        | \$ 44,047  | \$ 39,687                       | \$ 87,006  |
| Net income attributable to noncontrolling interests        | (7,794)                          | (23,783)   | (14,327)                        | (43,878)   |
| Net income attributable to Penn Virginia GP Holdings, L.P. | \$ 10,172                        | \$ 20,264  | \$ 25,360                       | \$ 43,128  |

PVR currently conducts operations in two business segments: (i) coal and natural resource management and (ii) natural gas midstream.

- PVR Coal and Natural Resource Management—leasing of coal properties in exchange for royalty payments and other land management activities.
- PVR Natural Gas Midstream—natural gas processing, gathering and other related services.

The following table presents a summary of certain financial information relating to PVR's segments (in thousands):

|                                               | PVR Coal and Natural Resource Management | PVR Natural Gas Midstream | Corporate and Other | Consolidated |
|-----------------------------------------------|------------------------------------------|---------------------------|---------------------|--------------|
| For the Nine Months Ended September 30, 2009: |                                          |                           |                     |              |
| Revenues                                      | \$ 108,575                               | \$ 353,228                | \$ -                | \$ 461,803   |
| Cost of midstream gas purchased               | -                                        | 285,129                   | -                   | 285,129      |
| Operating costs and expenses                  | 18,486                                   | 35,081                    | 1,978               | 55,545       |
| Depreciation, depletion and amortization      | 23,557                                   | 28,414                    | -                   | 51,971       |
| Operating income (loss)                       | \$ 66,532                                | \$ 4,604                  | \$ (1,978)          | \$ 69,158    |
| For the Nine Months Ended September 30, 2008: |                                          |                           |                     |              |
| Revenues                                      | \$ 111,010                               | \$ 607,585                | \$ -                | \$ 718,595   |
| Cost of midstream gas purchased               | -                                        | 513,778                   | -                   | 513,778      |
| Operating costs and expenses                  | 20,417                                   | 27,492                    | 1,718               | 49,627       |
| Depreciation, depletion and amortization      | 22,733                                   | 18,589                    | -                   | 41,322       |
| Operating income (loss)                       | \$ 67,860                                | \$ 47,726                 | \$ (1,718)          | \$ 113,868   |

## Results of Operations

### PVR Coal and Natural Resource Management Segment

As of December 31, 2008, PVR owned or controlled approximately 827 million tons of proven and probable coal reserves in Central and Northern Appalachia, the San Juan Basin and the Illinois Basin. PVR enters into long-term leases with experienced, third-party mine operators, providing them the right to mine PVR's coal reserves in exchange for royalty payments. PVR actively works with its lessees to develop efficient methods to exploit its reserves and to maximize production from its properties. PVR does not operate any mines. In the nine months ended September 30, 2009, PVR's lessees produced 25.9 million tons of coal from PVR's properties and paid to PVR coal royalties revenues of \$90.4 million, for an average royalty per ton of \$3.50 (\$3.33 per ton net of coal royalties expenses). Approximately 82% of PVR's coal royalties revenues in the nine months ended September 30, 2009 was derived from coal mined on PVR's properties under leases containing royalty rates based on the higher of a fixed base price or a percentage of the gross sales price. The balance of PVR's coal royalties revenues for the respective periods was derived from coal mined on PVR's properties under leases containing fixed royalty rates that escalate annually.

PVR also earns revenues from other land management activities, such as selling standing timber, leasing fee-based coal-related infrastructure facilities to certain lessees and end-user industrial plants, collecting oil and gas royalties and from coal transportation, or wheelage, fees.

The deterioration of the global economy, including financial and credit markets, has reduced worldwide demand for coal with resultant price declines. Depending on the longevity and ultimate severity of the deterioration, demand for coal may continue to decline, which could adversely affect production and pricing for coal mined by PVR's lessees, and, consequently, adversely affect the royalty income received by PVR and PVR's ability to make cash distributions to its limited partners and to us, the owner of PVR's general partner. The deterioration of the global economy has also adversely affected credit availability and PVR's access to new capital. This limited access to capital and credit availability has and could continue to hamper PVR's ability to fund acquisitions, potentially restricting future growth potential.

Three and Nine Months Ended September 30, 2009 Compared with the  
Three and Nine Months Ended September 30, 2008

The following table sets forth a summary of certain financial and other data for the PVR coal and natural resource management segment for the three and nine months ended September 30, 2009 and 2008 (in thousands, except as noted):

|                                                           | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|-----------------------------------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                                                           | 2009                             | 2008      | 2009                            | 2008      |
| <b>Financial Highlights</b>                               |                                  |           |                                 |           |
| <b>Revenues</b>                                           |                                  |           |                                 |           |
| Coal royalties                                            | \$ 29,821                        | \$ 33,308 | \$ 90,448                       | \$ 88,911 |
| Coal services                                             | 1,869                            | 1,815     | 5,502                           | 5,518     |
| Timber                                                    | 1,582                            | 1,911     | 4,355                           | 5,328     |
| Oil and gas royalty                                       | 535                              | 1,940     | 1,783                           | 4,730     |
| Other                                                     | 1,372                            | 2,686     | 6,487                           | 6,523     |
| Total revenues                                            | 35,179                           | 41,660    | 108,575                         | 111,010   |
| <b>Expenses</b>                                           |                                  |           |                                 |           |
| Coal royalties                                            | 1,587                            | 2,125     | 4,380                           | 8,034     |
| Other operating                                           | 559                              | 752       | 2,200                           | 1,488     |
| Taxes other than income                                   | 421                              | 373       | 1,146                           | 1,115     |
| General and administrative                                | 3,388                            | 3,321     | 10,760                          | 9,780     |
| Depreciation, depletion and amortization                  | 7,999                            | 8,794     | 23,557                          | 22,733    |
| Total expenses                                            | 13,954                           | 15,365    | 42,043                          | 43,150    |
| Operating income                                          | \$ 21,225                        | \$ 26,295 | \$ 66,532                       | \$ 67,860 |
| <b>Operating Statistics</b>                               |                                  |           |                                 |           |
| Royalty coal tons produced by lessees (tons in thousands) | 8,387                            | 8,496     | 25,874                          | 24,975    |
| Coal royalties revenues, net of coal royalties expenses   | \$ 28,234                        | \$ 31,183 | \$ 86,068                       | \$ 80,877 |
| Average coal royalties revenues per ton (\$/ton)          | \$ 3.56                          | \$ 3.92   | \$ 3.50                         | \$ 3.56   |
| Less coal royalties expenses per ton (\$/ton)             | (0.19)                           | (0.25)    | (0.17)                          | (0.32)    |
| Average net coal royalties per ton (\$/ton)               | \$ 3.37                          | \$ 3.67   | \$ 3.33                         | \$ 3.24   |

The following tables summarize coal production, coal royalties revenues and coal royalties per ton by region for the three and nine months ended September 30, 2009 and 2008:

| Region              | Coal Production                       |                                       | Coal Royalties Revenues               |                                       | Coal Royalties Per Ton                |                                       |
|---------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                     | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 |
|                     | (tons in thousands)                   |                                       | (in thousands)                        |                                       | (\$/ton)                              |                                       |
| Central Appalachia  | 4,594                                 | 4,815                                 | \$ 21,089                             | \$ 25,184                             | \$ 4.59                               | \$ 5.23                               |
| Northern Appalachia | 563                                   | 983                                   | 1,065                                 | 1,931                                 | 1.89                                  | 1.96                                  |
| Illinois Basin      | 1,333                                 | 1,110                                 | 3,644                                 | 2,923                                 | 2.73                                  | 2.63                                  |

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|                                  |       |       |           |           |         |         |
|----------------------------------|-------|-------|-----------|-----------|---------|---------|
| San Juan Basin                   | 1,897 | 1,588 | 4,023     | 3,270     | 2.12    | 2.06    |
| Total                            | 8,387 | 8,496 | \$ 29,821 | \$ 33,308 | \$ 3.56 | \$ 3.92 |
| Less coal royalties expenses (1) |       |       | (1,587)   | (2,125)   | (0.19)  | (0.25)  |
| Net coal royalties revenues      |       |       | \$ 28,234 | \$ 31,183 | \$ 3.37 | \$ 3.67 |

| Region                           | Coal Production     |        | Coal Royalties Revenues |           | Coal Royalties Per Ton |         |
|----------------------------------|---------------------|--------|-------------------------|-----------|------------------------|---------|
|                                  | Nine Months Ended   |        | Nine Months Ended       |           | Nine Months Ended      |         |
|                                  | September 30,       |        | September 30,           |           | September 30,          |         |
|                                  | 2009                | 2008   | 2009                    | 2008      | 2009                   | 2008    |
|                                  | (tons in thousands) |        | (in thousands)          |           | (\$/ton)               |         |
| Central Appalachia               | 13,902              | 14,770 | \$ 63,964               | \$ 68,213 | \$ 4.60                | \$ 4.62 |
| Northern Appalachia              | 2,680               | 2,767  | 4,965                   | 4,922     | 1.85                   | 1.78    |
| Illinois Basin                   | 3,739               | 3,262  | 9,747                   | 7,173     | 2.61                   | 2.20    |
| San Juan Basin                   | 5,553               | 4,176  | 11,772                  | 8,603     | 2.12                   | 2.06    |
| Total                            | 25,874              | 24,975 | \$ 90,448               | \$ 88,911 | \$ 3.50                | \$ 3.56 |
| Less coal royalties expenses (1) |                     |        | (4,380)                 | (8,034)   | (0.17)                 | (0.32)  |
| Net coal royalties revenues      |                     |        | \$ 86,068               | \$ 80,877 | \$ 3.33                | \$ 3.24 |

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(1) PVR's coal royalties expenses are incurred primarily in the Central Appalachian region.

**Production.** Coal production decreased by 0.1 million tons, or 1%, from 8.5 million tons in the three months ended September 30, 2008 to 8.4 million tons in the same period of 2009. This decrease was primarily driven by decreased longwall production in the Northern Appalachian region resulting from adverse geological conditions hampering production and recovery. Additionally, there were decreases in the Central Appalachia region primarily attributable to production cutbacks due to a depressed coal market. 2009 production in the Central Appalachian region also decreased due to cutbacks in longwall mining operations that were prevalent during 2008. Production from one of PVR's lessees ceased in the third quarter of 2008 as its operations moved onto adjacent reserves. These production decreases were partially offset by production increases in both the Illinois and San Juan Basins. The Illinois Basin production increased primarily due to the recognition of royalties and tonnages for previously mined reserves held in escrow pending property ownership research. The San Juan Basin benefited from the start up of a second mine and improved mining conditions in the region.

Coal production increased by 0.9 million tons, or 4%, from 25.0 million tons in the nine months ended September 30, 2008 to 25.9 million tons in the same period of 2009. The year to date increase in production primarily resulted from the start up of a second mine and improved mining conditions in the San Juan Basin, as well as the third quarter 2009 royalty and tonnage adjustment in the Illinois Basin for previously mined reserves temporarily held in escrow as ownership research was conducted. Partially offsetting these increases was the decline of 2009 production in the Central Appalachian region primarily in response to a depressed coal market, most notably in the metallurgical market where coal demand has fallen drastically since the third quarter of 2008. Also contributing to the production decrease in the Central Appalachia region was the reduction in longwall mining activity compared to the same period in 2008.

**Revenues.** Net coal royalties revenues decreased by \$3.0 million, or 10%, from \$31.2 million in the three months ended September 30, 2008 to \$28.2 million in the same period of 2009. This decrease was primarily attributable to lower coal sales prices in Central Appalachia which in turn resulted in lower royalty revenues, and, to a lesser extent, to lower coal volumes sold from PVR's properties. The average net coal royalty per ton, which represents the average coal royalties revenues per ton net of coal royalties expenses per ton, decreased by \$0.30 per ton, or 8%, from \$3.67 per ton in the three months ended September 30, 2008 to \$3.37 per ton in the same period of 2009. This decrease was attributable to a \$0.36 per ton decrease in average coal royalties revenues per ton, partially offset by a \$0.06 per ton decrease in coal royalties expenses. Average coal royalties revenues per ton decreased the most in the Central Appalachian region primarily due to significantly reduced demand for metallurgical coal in the international coal markets.

Coal services revenues remained relatively constant from the three months ended September 30, 2008 to the same period of 2009. Timber revenues decreased by \$0.3 million, or 16%, from \$1.9 million in the three months ended September 30, 2008 to \$1.6 million in the same period of 2009 primarily due to lower sales prices resulting from weakened market conditions for furniture-grade wood products. Oil and gas royalties revenues decreased by \$1.4 million, or 74%, from \$1.9 million in the three months ended September 30, 2008 to \$0.5 million in the same period of 2009 primarily due to lower natural gas prices. Other revenues, which consisted primarily of wheelage fees, forfeiture income and management fees, decreased by \$1.3 million, or 48%, from \$2.7 million in the three months ended September 30, 2008 to \$1.4 million in the same period of 2009 primarily due to lower wheelage income.

Net coal royalties revenues increased by \$5.2 million, or 6%, from \$80.9 million in the nine months ended September 30, 2008 to \$86.1 million in the same period of 2009. This increase was attributable to increases in both production and average net coal sales prices received by PVR's lessees. The average net coal royalty per ton increased by \$0.09 per ton, or 3%, from \$3.24 per ton in the nine months ended September 30, 2008 to \$3.33 per ton in the same period of 2009. This increase was attributable to both an increase in the average coal royalties revenues per ton for most regions, especially in the Illinois Basin, where new contract pricing has generated higher gross sales prices for tonnages in that region, and lower coal royalties expenses caused by lower production from certain subleased properties.



Coal services revenues remained relatively constant from the nine months ended September 30, 2008 to the same period of 2009. Timber revenues decreased by \$0.9 million, or 17%, from \$5.3 million in the nine months ended September 30, 2008 to \$4.4 million in the same period of 2009 primarily due to lower sales prices resulting from weakened market conditions for furniture-grade wood products. Oil and gas royalties revenues decreased by \$2.9 million, or 62%, from \$4.7 million in the nine months ended September 30, 2008 to \$1.8 million in the same period of 2009 primarily due to lower natural gas prices. Other revenues remained relatively constant from the nine months ended September 30, 2008 to the same period of 2009.

Expenses. Other operating expenses decreased by \$0.2 million, or 25%, from \$0.8 million in the three months ended September 30, 2008 to \$0.6 million in the same period of 2009 primarily due to lower expenses related to core drilling and mine maintenance costs for which PVR is contractually obligated. Taxes other than income and general and administrative expenses remained relatively constant from the three months ended September 30, 2008 to the same period of 2009. Depreciation, depletion and amortization expenses decreased by \$0.8 million, or 9%, from \$8.8 million in the three months ended September 30, 2008 to \$8.0 million in the same period of 2009 primarily due to lower depletion expenses for PVR's mining and timber operations.

Other operating expenses increased by \$0.7 million, or 47%, from \$1.5 million in the nine months ended September 30, 2008 to \$2.2 million in the same period of 2009 primarily due to higher expenses related to PVR's timber operations and costs incurred under PVR's contractual obligations for mine maintenance. Taxes other than income remained relatively constant from the nine months ended September 30, 2008 to the same period of 2009. General and administrative costs increased by \$1.0 million, or 10%, from \$9.8 million in the nine months ended September 30, 2008 to \$10.8 million in the same period of 2009 primarily due to higher staffing and related employee benefit costs. Depreciation, depletion and amortization expenses increased by \$0.9 million, or 4%, from \$22.7 million in the nine months ended September 30, 2008 to \$23.6 million in the same period of 2009 primarily due to higher depletion expenses for PVR's mining and timber operations.

#### PVR Natural Gas Midstream Segment

The PVR natural gas midstream segment provides natural gas processing, gathering and other related services. As of September 30, 2009, PVR owned and operated natural gas midstream assets located in Oklahoma and Texas, including six natural gas processing facilities having 400 million cubic feet per day (MMcfd) of total capacity and approximately 4,069 miles of natural gas gathering pipelines. The PVR natural gas midstream business earns revenues primarily from gas processing contracts with natural gas producers and from fees charged for gathering natural gas volumes and providing other related services. In addition, PVR owns a 25% member interest in Thunder Creek Gas Services, LLC, or Thunder Creek, a joint venture that gathers and transports coalbed methane in Wyoming's Powder River Basin. PVR also owns a natural gas marketing business, which aggregates third-party volumes and sells those volumes into intrastate pipeline systems and at market hubs accessed by various interstate pipelines.

During the three months ended September 30, 2009, PVR completed a 40 MMcfd plant expansion in its Beaver/Spearman complex, or the Panhandle System, in Texas and Oklahoma in July and acquired an additional 60 MMcfd plant in Oklahoma that began accepting gas on September 1, 2009. This additional processing capacity allows PVR to process all of its Panhandle natural gas through PVR's own facilities and eliminate fees paid to third parties for processing services. PVR also acquired a 50% member interest in a residue pipeline connected to its east Texas processing plant.

For the nine months ended September 30, 2009, system throughput volumes at PVR's gas processing plants and gathering systems, including gathering-only volumes, were 93.4 billion cubic feet (Bcf), or approximately 342 MMcfd. For the nine months ended September 30, 2009, 23% and 14% of the PVR natural gas midstream segment's

revenues and 18% and 11% of our total consolidated revenues were derived from two of the PVR natural gas midstream segment's customers, Conoco, Inc. and Tenaska Marketing Ventures.

PVR continually seeks new supplies of natural gas to offset the natural declines in production from the wells currently connected to its systems and to increase system throughput volumes. New natural gas supplies are obtained for all of PVR's systems by contracting for production from new wells, connecting new wells drilled on dedicated acreage and contracting for natural gas that has been released from competitors' systems. In the nine months ended September 30, 2009, the PVR natural gas midstream segment made aggregate capital expenditures of \$72.0 million, primarily related to PVR's Panhandle System in Texas and Oklahoma.

Revenues, profitability and the future rate of growth of the PVR natural gas midstream segment are highly dependent on market demand and prevailing natural gas liquid, or NGL, and natural gas prices. NGL and natural gas prices have been subject to significant volatility in recent years in response to changes in the supply and demand for NGL products and natural gas market demand. The deterioration of the global economy has resulted in a decrease in demand for natural gas and NGLs. Depending on the longevity and ultimate severity of the deterioration, NGL production from its processing plants could decrease and adversely affect PVR's natural gas midstream processing income and PVR's ability to make cash distributions. The deterioration of the global economy has also adversely affected credit availability and PVR's access to new capital. This limited access to capital and credit availability has and could continue to hamper PVR's ability to fund acquisitions, potentially restricting future growth potential.

Three and Nine Months Ended September 30, 2009 Compared with the  
Three and Nine Months Ended September 30, 2008

The following table sets forth a summary of certain financial and other data for the PVR natural gas midstream segment for the three and nine months ended September 30, 2009 and 2008 (in thousands, except as noted):

|                                                  | Three Months Ended September<br>30, |            | Nine Months Ended September<br>30, |            |
|--------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                  | 2009                                | 2008       | 2009                               | 2008       |
| <b>Financial Highlights</b>                      |                                     |            |                                    |            |
| <b>Revenues</b>                                  |                                     |            |                                    |            |
| Residue gas                                      | \$ 62,801                           | \$ 158,709 | \$ 211,165                         | \$ 373,913 |
| Natural gas liquids                              | 48,147                              | 72,349     | 117,670                            | 199,053    |
| Condensate                                       | 4,659                               | 7,202      | 11,507                             | 21,870     |
| Gathering, processing and transportation fees    | 2,836                               | 3,022      | 8,540                              | 6,291      |
| Total natural gas midstream revenues (1)         | 118,443                             | 241,282    | 348,882                            | 601,127    |
| Equity earnings in equity investment             | 1,597                               | 981        | 3,345                              | 1,537      |
| Producer services                                | 406                                 | 1,353      | 1,001                              | 4,921      |
| Total revenues                                   | 120,446                             | 243,616    | 353,228                            | 607,585    |
| <b>Expenses</b>                                  |                                     |            |                                    |            |
| Cost of midstream gas purchased (1)              | 92,355                              | 211,262    | 285,129                            | 513,778    |
| Operating                                        | 6,884                               | 6,164      | 20,358                             | 15,031     |
| Taxes other than income                          | 584                                 | 596        | 2,062                              | 1,902      |
| General and administrative                       | 4,180                               | 3,757      | 12,661                             | 10,559     |
| Depreciation and amortization                    | 9,852                               | 8,109      | 28,414                             | 18,589     |
| Total operating expenses                         | 113,855                             | 229,888    | 348,624                            | 559,859    |
| Operating income                                 | \$ 6,591                            | \$ 13,728  | \$ 4,604                           | \$ 47,726  |
| <b>Operating Statistics</b>                      |                                     |            |                                    |            |
| System throughput volumes (MMcfd)                | 29,811                              | 27,744     | 93,433                             | 68,915     |
| Daily throughput volumes (MMcfd)                 | 324                                 | 302        | 342                                | 252        |
| Gross margin                                     | \$ 26,088                           | \$ 30,020  | \$ 63,753                          | \$ 87,349  |
| Cash impact of derivatives                       | 1,993                               | (12,551)   | 9,162                              | (29,151)   |
| Gross margin, adjusted for impact of derivatives | \$ 28,081                           | \$ 17,469  | \$ 72,915                          | \$ 58,198  |
| Gross margin (\$/Mcf)                            | \$ 0.88                             | \$ 1.08    | \$ 0.68                            | \$ 1.27    |
| Cash impact of derivatives (\$/Mcf)              | 0.06                                | (0.45)     | 0.10                               | (0.42)     |

|                                                              |    |      |    |      |    |      |    |      |
|--------------------------------------------------------------|----|------|----|------|----|------|----|------|
| Gross margin, adjusted for impact of derivatives<br>(\$/Mcf) | \$ | 0.94 | \$ | 0.63 | \$ | 0.78 | \$ | 0.85 |
|--------------------------------------------------------------|----|------|----|------|----|------|----|------|

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(1) In the three months ended September 30, 2009, PVR recorded \$15.1 million of natural gas midstream revenues and \$15.1 million for the cost of midstream gas purchased related to the purchase of natural gas from Penn Virginia Oil & Gas, L.P., or PVOG LP, and the subsequent sale of that gas to third parties. In the nine months ended September 30, 2009, PVR recorded \$56.4 million of natural gas midstream revenues and \$56.4 million for the cost of midstream gas purchased related to the purchase of natural gas from PVOG LP and the subsequent sale of that gas to third parties. PVR takes title to the gas prior to transporting it to third parties.

**Gross Margin.** PVR's gross margin is the difference between PVR's natural gas midstream revenues and PVR's cost of midstream gas purchased. Natural gas midstream revenues include residue gas sold from processing plants after NGLs are removed, NGLs sold after being removed from system throughput volumes received, condensate collected and sold and gathering and other fees primarily from natural gas volumes connected to PVR's gas processing plants. Cost of midstream gas purchased consists of amounts payable to third-party producers for natural gas purchased under percentage-of-proceeds and gas purchase/keep-whole contracts.

The 13% gross margin decrease in the three months ended September 30, 2009 as compared to the same period of 2008 was primarily due to lower commodity pricing and frac spreads. Frac spreads are the difference between the price of NGLs sold and the cost of natural gas purchased on a per million British thermal unit (MMBtu) basis. The gross margin decrease was partially offset by margins earned from higher system throughput volumes.

System throughput volumes increased by 22 MMcfd, or 7%, from 302 MMcfd in the three months ended September 30, 2008 to 324 MMcfd in the same period of 2009 primarily due to the continued successful development by producers operating in the vicinity of the Panhandle System, as well as PVR's success in contracting and connecting new supply.

During the three months ended September 30, 2009, PVR generated a majority of its gross margin from contractual arrangements under which the gross margin is exposed to increases and decreases in the price of natural gas and NGLs. As part of its risk management strategy, PVR uses derivative financial instruments to economically hedge NGLs sold and natural gas purchased. See Note 4, "Derivative Instruments," in the Notes to Condensed Consolidated Financial Statements in Item 1, "Financial Statements," for a description of PVR's derivatives program. Adjusted for the cash impact of PVR's commodity derivative instruments, PVR's gross margin increased by \$10.6 million, or 61%, from \$17.5 million in the three months ended September 30, 2008 to \$28.1 million in the same period of 2009. On a per thousand cubic feet (Mcf) basis, adjusted for the cash impact of PVR's commodity derivatives, PVR's gross margin increased by \$0.31 per Mcf, or 49%, from \$0.63 per Mcf in the three months ended September 30, 2008 to \$0.94 per Mcf in the same period of 2009. This increase was primarily attributable to changes in commodity prices and the mix of PVR's commodity derivatives.

The 27% gross margin decrease in the nine months ended September 30, 2009 as compared to the same period of 2008 was a result of lower commodity pricing and frac spreads, partially offset by margins earned from higher system throughput volumes.

System throughput volumes increased by 90 MMcfd, or 36%, from 252 MMcfd in the nine months ended September 30, 2008 to 342 MMcfd in the same period of 2009 primarily due to the continued successful development by producers operating in the vicinity of the Panhandle System, as well as PVR's success in contracting and connecting new supply. The Crossroads plant in East Texas, which became fully operational in April 2008, and the acquisition of PVR's North Texas gathering system, which was consummated in the third quarter of 2008, also contributed to the volume increase.

Adjusted for the cash impact of PVR's commodity derivative instruments, PVR's gross margin increased by \$14.7 million, or 25%, from \$58.2 million in the nine months ended September 30, 2008 to \$72.9 million in the same period of 2009. On a per Mcf basis, adjusted for the cash impact of PVR's commodity derivatives, PVR's gross margin decreased by \$0.07 per Mcf, or 8%, from \$0.85 per Mcf in the nine months ended September 30, 2008 to \$0.78 per Mcf in the same period of 2009. This decrease was primarily attributable to the addition of lower margin fixed fee volumes at the Crossroads plant and from PVR's recently acquired North Texas gathering system.

**Equity Earnings in Equity Investment.** PVR's equity earnings increased in both the three and nine months ended September 30, 2009 as compared to the same periods of 2008 primarily as a result of revenues generated from PVR's 25% member interest in the Thunder Creek joint venture that gathers and transports coalbed methane in Wyoming's

Powder River Basin. In 2009, revenues from this joint venture have grown primarily due to mainline volume increases despite the reduction in drilling in the Powder River Basin.

Producer Services Revenues. Producer services revenues decreased by \$1.0 million, or 71%, from \$1.4 million in the three months ended September 30, 2008 to \$0.4 million in the same period of 2009 primarily due to a negative relative change in the natural gas indices on which PVR's purchases and sales of natural gas are based and a decrease in marketing fees resulting from lower commodity prices.

Producer services revenues decreased by \$3.9 million, or 80%, from \$4.9 million in the nine months ended September 30, 2008 to \$1.0 million in the same period of 2009 primarily due to a negative relative change in the natural gas indices on which PVR's purchases and sales of natural gas are based and a decrease in marketing fees resulting from lower commodity prices.

Expenses. Operating expenses increased by \$0.7 million, or 11%, from \$6.2 million in the three months ended September 30, 2008 to \$6.9 million in the same period of 2009 primarily due to higher costs for compressor rentals related to PVR's expanding footprint in the Texas and Oklahoma panhandle. General and administrative expenses increased by \$0.4 million, or 11%, from \$3.8 million in the three months ended September 30, 2008 to \$4.2 million in the same period of 2009 primarily due to higher staffing and related employee benefit costs. Depreciation and amortization expenses increased by \$1.8 million, or 22%, from \$8.1 million in the three months ended September 30, 2008 to \$9.9 million in the same period of 2009 primarily due to capital spending on expansion projects, such as the Spearman and Crossroads plants, and PVR's recent acquisitions.

Operating expenses increased by \$5.4 million, or 36%, from \$15.0 million in the nine months ended September 30, 2008 to \$20.4 million in the same period of 2009 primarily due to higher costs for compressor rentals, employee costs and general supplies needed to operate assets in the Texas and Oklahoma panhandle. General and administrative expenses increased by \$2.1 million, or 20%, from \$10.6 million in the nine months ended September 30, 2008 to \$12.7 million in the same period of 2009 primarily due to higher staffing and related employee benefit costs. Depreciation and amortization expenses increased by \$9.8 million, or 53%, from \$18.6 million in the nine months ended September 30, 2008 to \$28.4 million in the same period of 2009 primarily due to capital spending on expansion projects, such as the Spearman and Crossroads plants, and PVR's recent acquisitions.

#### Other

Our other results consist of interest expense and derivative gains and losses. The following table sets forth a summary of certain financial data for our other results for the three and nine months ended September 30, 2009 and 2008 (in thousands):

|                        | Three Months Ended September 30, |           | Nine Months Ended September 30, |            |
|------------------------|----------------------------------|-----------|---------------------------------|------------|
|                        | 2009                             | 2008      | 2009                            | 2008       |
| Operating income       | \$ 26,937                        | \$ 39,483 | \$ 69,158                       | \$ 113,868 |
| Other income (expense) |                                  |           |                                 |            |
| Interest expense       | (6,505)                          | (7,060)   | (18,486)                        | (17,366)   |
| Other                  | 344                              | (4,118)   | 1,020                           | (3,072)    |
| Derivatives            | (2,810)                          | 15,742    | (12,005)                        | (6,424)    |
| Net income             | \$ 17,966                        | \$ 44,047 | \$ 39,687                       | \$ 87,006  |

Interest Expense. Interest expense for the three and nine months ended September 30, 2009 and 2008 is comprised of the following (in thousands):

|                        | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|------------------------|----------------------------------|----------|---------------------------------|-----------|
| Source                 | 2009                             | 2008     | 2009                            | 2008      |
| Interest on borrowings | \$ 5,648                         | \$ 6,206 | \$ 16,112                       | \$ 16,828 |
| Capitalized interest   | -                                | -        | (226)                           | (675)     |
| Interest rate swaps    | 857                              | 854      | 2,600                           | 1,213     |
| Total interest expense | \$ 6,505                         | \$ 7,060 | \$ 18,486                       | \$ 17,366 |



Interest expense incurred on borrowings under PVR's revolving credit facility, or the PVR Revolver, for both the three and nine months ended September 30, 2009 decreased from the comparative periods in 2008 due to lower interest rates. This decrease was partially offset by the effects of an increase in PVR's weighted average borrowings due to PVR's capital spending program and an increase in non-cash interest expense related to debt issuance costs incurred in March 2009. PVR's interest rate swaps, or the PVR Interest Rate Swaps, which establish fixed interest rates on a portion of the outstanding borrowings under the PVR Revolver, have also increased the total interest expense.

Derivatives. Our results of operations and operating cash flows were impacted by changes in market prices affecting fair values for NGL, crude oil and natural gas prices. Commodity markets are volatile, and as a result, PVR's hedging activity results can vary significantly. PVR determines the fair values of its commodity derivative instruments using quoted forward prices for the respective commodities and discount rates adjusted for the credit risk of PVR's counterparties for derivatives in an asset position and PVR's own credit risk for derivatives in a liability position.

PVR's derivative activity for the three and nine months ended September 30, 2009 and 2008 is summarized below (in thousands):

|                                                                   | Three Months Ended September 30, |           | Nine Months Ended September 30, |            |
|-------------------------------------------------------------------|----------------------------------|-----------|---------------------------------|------------|
|                                                                   | 2009                             | 2008      | 2009                            | 2008       |
| PVR Interest Rate Swap unrealized derivative gain (loss)          | \$ (1,640)                       | \$ -      | \$ 1,776                        | \$ -       |
| PVR Interest Rate Swap realized derivative loss                   | (2,307)                          | -         | (5,027)                         | -          |
| Natural gas midstream commodity unrealized derivative gain (loss) | (856)                            | 29,796    | (17,916)                        | 26,855     |
| Natural gas midstream commodity realized derivative gain (loss)   | 1,993                            | (14,054)  | 9,162                           | (33,279)   |
| Total derivative gain (loss)                                      | \$ (2,810)                       | \$ 15,742 | \$ (12,005)                     | \$ (6,424) |

Noncontrolling Interests. Noncontrolling interests represent net income allocated to the limited partner units of PVR owned by the public. See Note 6, "Noncontrolling Interests," in the Notes to Condensed Consolidated Financial Statements in Item 1, "Financial Statements," for a description of the noncontrolling interests in PVR. In the three months ended September 30, 2009 and 2008, the noncontrolling interests in PVR reduced our consolidated net income by \$7.8 million and \$23.8 million. The decrease in the noncontrolling interests in PVR was primarily due to the decrease in PVR's net income, from \$44.6 million in the three months ended September 30, 2008 to \$18.8 million in the same period of 2009. In the nine months ended September 30, 2009 and 2008, the noncontrolling interests in PVR reduced our consolidated net income by \$14.3 million and \$43.9 million. The decrease in the noncontrolling interests in PVR was primarily due to the decrease in PVR's net income, from \$88.6 million in the nine months ended September 30, 2008 to \$41.6 million in the same period of 2009.

### Liquidity and Capital Resources

We rely exclusively on distributions from PVR to fund any cash requirements for our operations.

On an ongoing basis, PVR generally satisfies its working capital requirements and funds its capital expenditures using cash generated from its operations, borrowings under the \$800.0 million PVR Revolver and proceeds from PVR equity offerings. As discussed in more detail in "—Long-Term Debt" below, as of September 30, 2009, PVR had availability of \$170.3 million on the PVR Revolver. PVR funds its debt service obligations and distributions to unitholders solely using cash generated from its operations. PVR believes that the cash generated from its operations and its borrowing capacity will be sufficient to meet its working capital requirements, anticipated capital expenditures (other than major capital improvements or acquisitions), interest payments on amounts outstanding under the PVR

Revolver and its distribution payments for the remainder of 2009. However, PVR's ability to meet these requirements in the future will depend upon PVR's future operating performance, which will be affected by prevailing economic conditions in the coal industry and natural gas midstream market, some of which are beyond PVR's control.

## Cash Flows

The following table summarizes our cash flow statements for the nine months ended September 30, 2009 and 2008 (in thousands):

|                                                                                            | Nine Months Ended September 30, |             |
|--------------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                            | 2009                            | 2008        |
| Cash flows from operating activities:                                                      |                                 |             |
| Net income contribution                                                                    | \$ 39,687                       | \$ 87,006   |
| Adjustments to reconcile net income to net cash provided operating activities (summarized) | 71,603                          | 17,386      |
| Net changes in operating assets and liabilities                                            | 3,540                           | (11,277)    |
| Net cash provided by operating activities                                                  | 114,830                         | 93,115      |
| Net cash used in investing activities                                                      | (72,419)                        | (306,276)   |
| Net cash provided by (used in) financing activities                                        | (39,555)                        | 201,665     |
| Net increase (decrease) in cash and cash equivalents                                       | \$ 2,856                        | \$ (11,496) |

**Operating Activities.** At September 30, 2009, we had \$21.2 million in cash and cash equivalents compared to \$18.3 million at December 31, 2008. Cash provided by operating activities for the nine months ended September 30, 2009 was \$114.8 million compared to \$93.1 million for the nine months ended September 30, 2008. This increase was due primarily to a significant change in cash settlements from derivatives, with net receipts of \$4.1 million for the nine months ended September 30, 2009 compared with net payments of \$33.3 million for the same period of 2008, partially offset by lower gross margin from the PVR midstream segment in the nine month period of 2009.

**Investing Activities.** Cash used in investing activities was \$72.4 million for the nine months ended September 30, 2009 compared to \$306.3 million for the nine months ended September 30, 2008. This decrease was due to lower acquisition activity during the nine months ended September 30, 2009 compared to the same period of 2008.

**Financing Activities.** Cash used in financing activities was \$39.6 million for the nine months ended September 30, 2009 compared to cash provided of \$201.7 million for the nine months ended September 30, 2008. During the nine months ended September 30, 2008, a PVR equity issuance provided net proceeds of \$141.0 million and was used in part to repay borrowings under the PVR Revolver. The proceeds from PVR's borrowings during both periods were used to fund PVR's capital expenditures.

## Long-Term Debt

As of September 30, 2009, we had no outstanding debt other than the debt of PVR discussed below, which is included in our condensed consolidated financial statements. PVR's debt is non-recourse to us.

In March 2009, PVR increased the size of the PVR Revolver from \$700.0 million to \$800.0 million, which resulted in \$9.3 million of debt issuance costs. The PVR Revolver is secured with substantially all of PVR's assets. As of September 30, 2009, PVR had remaining borrowing capacity of \$170.3 million on the PVR Revolver, net of outstanding borrowings of \$628.1 million and letters of credit of \$1.6 million. The PVR Revolver matures in December 2011 and is available to PVR for general purposes, including working capital, capital expenditures and acquisitions, and includes a \$10.0 million sublimit for the issuance of letters of credit. Interest is payable at a base rate plus an applicable margin of up to 1.25% if PVR selects the base rate borrowing option or at a rate derived from the London Interbank Offered Rate, or LIBOR, plus an applicable margin ranging from 1.75% to 2.75% if PVR selects the LIBOR-based borrowing option. At September 30, 2009, the base rate applicable margin was 0.75% and the LIBOR-based rate applicable margin was 2.25%. At September 30, 2009, the weighted average interest rate on

borrowings outstanding under the PVR Revolver was approximately 2.5%. PVR entered into the PVR Interest Rate Swaps to establish fixed interest rates on a portion of the outstanding borrowings under the PVR Revolver. See Item 3, “Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk,” for a discussion of the PVR Interest Rate Swaps. As of September 30, 2009, PVR was in compliance with all of its covenants under the PVR Revolver.

## Future Capital Needs and Commitments

Currently, we have no capital requirements. In the future, we may decide to facilitate PVR acquisitions and other capital expenditures by the issuance of debt or equity.

PVR believes that short-term cash requirements for operating expenses and quarterly distributions to us, the owner of its general partner, and its unitholders will be funded through operating cash flows. PVR believes that its remaining borrowing capacity will be sufficient for its capital needs and commitments for the remainder of 2009. Subject to commodity prices and the availability of capital, PVR is committed to the growth of both of its business segments through a combination of organic projects and acquisitions of new properties and assets. For the remainder of 2009, PVR anticipates making capital expenditures of approximately \$11.0 to \$19.0 million. The majority of PVR's 2009 capital expenditures are expected to be incurred in the PVR natural gas midstream segment.

Long-term cash requirements for PVR's acquisitions and other capital expenditures are expected to be funded by several sources, including cash flows from PVR's operating activities, borrowings under the PVR Revolver and the issuance of additional PVR debt and equity securities if available on commercially acceptable terms. However, disruptions in the global financial and commodities markets and the general economic climate have made access to equity and debt capital markets very difficult since late in 2008. While signs of improvement in these markets have occurred, if PVR is unable to access the capital markets for an extended period, PVR's ability to make acquisitions and other capital expenditures, as well as PVR's ability to increase or sustain cash distributions to its limited partners and to us, the owner of PVR's general partner, will likely become impaired. If additional financing is required, there are no assurances that it will be available or, if available, that it can be obtained on terms favorable to PVR.

## Environmental Matters

PVR's operations and those of its coal lessees are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. The terms of PVR's coal property leases impose liability on the relevant lessees for all environmental and reclamation liabilities arising under those laws and regulations. The lessees are bonded and have indemnified PVR against any and all future environmental liabilities. PVR regularly visits its coal properties to monitor lessee compliance with environmental laws and regulations and to review mining activities. PVR's management believes that its operations and those of its lessees comply with existing laws and regulations and does not expect any environment-related material adverse impact on its financial condition or results of operations.

As of September 30, 2009 and December 31, 2008, PVR's environmental liabilities were \$1.1 million and \$1.2 million, which represents PVR's best estimate of the liabilities as of those dates related to its coal and natural resource management and natural gas midstream businesses. PVR has reclamation bonding requirements with respect to certain unleased and inactive properties. Given the uncertainty of when a reclamation area will meet regulatory standards, a change in this estimate could occur in the future.

## Summary of Critical Accounting Policies and Estimates

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires our management to make estimates and judgments regarding certain items and transactions. It is possible that materially different amounts could be recorded if these estimates and judgments change or if the actual results differ from these estimates and judgments. Our most critical accounting policies which involve the judgment of our management were fully disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008 and remained unchanged as of September 30, 2009.



## Recent Accounting Pronouncements

See Note 12, “New Accounting Standards,” in the Notes to Condensed Consolidated Financial Statements in Item 1, “Financial Statements,” for a description of recent accounting pronouncements.

## Forward-Looking Statements

Certain statements contained herein that are not descriptions of historical facts are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Because such statements include risks, uncertainties and contingencies, actual results may differ materially from those expressed or implied by such forward-looking statements. These risks, uncertainties and contingencies include, but are not limited to, the following:

- the volatility of commodity prices for natural gas, NGLs and coal;
- PVR’s ability to access external sources of capital;
- any impairment writedowns of PVR’s assets;
- the relationship between natural gas, NGL and coal prices;
- the projected demand for and supply of natural gas, NGLs and coal;
- competition among producers in the coal industry generally and among natural gas midstream companies;
- the extent to which the amount and quality of actual production of PVR’s coal differs from estimated recoverable coal reserves;
- PVR’s ability to generate sufficient cash from its businesses to maintain and pay the quarterly distribution to its general partner and its unitholders;
- the experience and financial condition of PVR’s coal lessees and natural gas midstream customers, including PVR’s lessees’ ability to satisfy their royalty, environmental, reclamation and other obligations to PVR and others;
- operating risks, including unanticipated geological problems, incidental to PVR’s coal and natural resource management or natural gas midstream businesses;
- PVR’s ability to acquire new coal reserves or natural gas midstream assets and new sources of natural gas supply and connections to third-party pipelines on satisfactory terms;
- PVR’s ability to retain existing or acquire new natural gas midstream customers and coal lessees;
- the ability of PVR’s lessees to produce sufficient quantities of coal on an economic basis from PVR’s reserves and obtain favorable contracts for such production;
- the occurrence of unusual weather or operating conditions including force majeure events;
- delays in anticipated start-up dates of PVR’s lessees’ mining operations and related coal infrastructure projects and new processing plants in the PVR natural gas midstream segment’s business;

- environmental risks affecting the mining of coal reserves or the production, gathering and processing of natural gas;
  - the timing of receipt of necessary governmental permits by PVR or its lessees;
    - hedging results;
    - accidents;
- changes in governmental regulation or enforcement practices, especially with respect to environmental, health and safety matters, including with respect to emissions levels applicable to coal-burning power generators;
  - uncertainties relating to the outcome of current and future litigation regarding mine permitting;

- risks and uncertainties relating to general domestic and international economic (including inflation, interest rates and financial and credit markets) and political conditions (including the impact of potential terrorist attacks); and
- other risks set forth in our Annual Report on Form 10-K for the year ended December 31, 2008.

Additional information concerning these and other factors can be found in our press releases and public periodic filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2008. Many of the factors that will determine our future results are beyond the ability of management to control or predict. Readers should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. We undertake no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

### Item 3 Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. The principal market risks to which PVR is exposed are as follows:

- Price Risk
- Interest Rate Risk
- Customer Credit Risk

As a result of PVR's risk management activities as discussed below, PVR is also exposed to counterparty risk with financial institutions with whom PVR enters into these risk management positions. Sensitivity to these risks has heightened due to the deterioration of the global economy, including financial and credit markets.

#### Price Risk

PVR's price risk management program permits the utilization of derivative financial instruments (such as swaps, costless collars and three-way collars) to seek to mitigate the price risks associated with fluctuations in natural gas, NGL and crude oil prices as they relate to the PVR natural gas midstream segment. The derivative financial instruments are placed with major financial institutions that PVR believes are of acceptable credit risk. The fair values of PVR's price derivative financial instruments are significantly affected by fluctuations in the prices of natural gas, NGLs and crude oil.

At September 30, 2009, we reported a commodity derivative asset related to the PVR natural gas midstream segment of \$4.8 million. The contracts underlying such commodity derivative asset are with four counterparties, all which are investment grade financial institutions, and such commodity derivative asset is substantially concentrated with one of those counterparties. This concentration may impact our overall credit risk, either positively or negatively, in that these counterparties may be similarly affected by changes in economic or other conditions. PVR neither paid nor received collateral with respect to its derivative positions. The maximum amount of loss due to credit risk if counterparties to PVR's derivative asset positions fail to perform according to the terms of the contracts would be equal to the fair value of the contracts as of September 30, 2009. No significant uncertainties related to the collectability of amounts owed to PVR exist with regard to these counterparties.

For the nine months ended September 30, 2009, we reported net derivative losses of \$12.0 million. Because PVR no longer uses hedge accounting for its commodity derivatives, we recognize changes in fair value in earnings currently in the derivatives line item on our condensed consolidated statements of income. We have experienced and could continue to experience significant changes in the estimate of derivative gains or losses recognized due to fluctuations in the value of PVR's commodity derivative contracts. Our results of operations are affected by the volatility of unrealized gains and losses and changes in fair value, which fluctuate with changes in natural gas, crude oil and NGL prices. These fluctuations could be significant in a volatile pricing environment. See Note 4, "Derivative Instruments," in the Notes to Condensed Consolidated Financial Statements in Item 1, "Financial Statements," for a further description of PVR's derivatives program.

The following table lists PVR's commodity derivative agreements and their fair values as of September 30, 2009:

|                                                                 | Average           |                | Weighted Average Price      |       |                 | Fair Value at<br>September<br>30, 2009<br>(in thousands) |
|-----------------------------------------------------------------|-------------------|----------------|-----------------------------|-------|-----------------|----------------------------------------------------------|
|                                                                 | Volume Per<br>Day | Swap Price     | Additional<br>Put<br>Option | Put   | Call            |                                                          |
| Crude Oil Three-Way Collar                                      | (barrels)         |                |                             |       | (\$ per barrel) |                                                          |
| Fourth Quarter 2009                                             | 1,000             |                | 70.00                       | 90.00 | 119.25          | \$ 1,433                                                 |
| Frac Spread Collar                                              | (MMBtu)           |                |                             |       | (\$ per MMBtu)  |                                                          |
| Fourth Quarter 2009                                             | 6,000             |                |                             | 9.09  | 13.94           | 864                                                      |
| Crude Oil Collar                                                | (barrels)         |                |                             |       | (\$ per barrel) |                                                          |
| First Quarter 2010 through Fourth Quarter 2010                  | 750               |                |                             | 70.00 | 81.25           | 228                                                      |
| First Quarter 2010 through Fourth Quarter 2010                  | 1,000             |                |                             | 68.00 | 80.00           | (155)                                                    |
| Natural Gas Purchase Swap                                       | (MMBtu)           | (\$ per MMBtu) |                             |       |                 |                                                          |
| First Quarter 2010 through Fourth Quarter 2010                  | 5,000             | 5.815          |                             |       |                 | 709                                                      |
| Settlements to be received in subsequent period                 |                   |                |                             |       |                 | 1,742                                                    |
| Natural gas midstream segment commodity derivatives - net asset |                   |                |                             |       |                 | \$ 4,821                                                 |

PVR estimates that a \$5.00 per barrel increase in the crude oil price would decrease the fair value of PVR's crude oil collars by \$0.8 million. PVR estimates that a \$5.00 per barrel decrease in the crude oil price would increase the fair value of PVR's crude oil collars by \$4.8 million. PVR estimates that a \$1.00 per MMBtu increase in the natural gas price would increase the fair value of PVR's natural gas purchase swap by \$2.5 million. PVR estimates that a \$1.00 per MMBtu decrease in the natural gas price would decrease the fair value of PVR's natural gas purchase swap by \$1.1 million.

In addition, PVR estimates that a \$1.00 per MMBtu increase in the natural gas purchase price and a \$4.65 per barrel increase in the natural gasoline (a natural gas liquid) sales price would increase the fair value of PVR's frac spread collar by \$2.0 million. PVR estimates that a \$1.00 per MMBtu decrease in the natural gas purchase price and a \$4.65 per barrel decrease in the natural gasoline sales price would increase the fair value of PVR's frac spread collar by \$2.1 million. These estimated changes exclude potential cash receipts or payments in settling PVR's derivative positions.

PVR estimates that, excluding the effects of derivative positions described above, for every \$1.00 per MMBtu increase or decrease in the natural gas price, PVR's natural gas midstream gross margin and operating income for the remainder of 2009 would increase or decrease by \$1.3 million. In addition, PVR estimates that for every \$5.00 per barrel increase or decrease in the crude oil price, PVR's natural gas midstream gross margin and operating income for the remainder of 2009 would increase or decrease by \$1.2 million. This assumes that natural gas prices, crude oil prices and inlet volumes remain constant at anticipated levels. These estimated changes in PVR's gross margin and operating income exclude potential cash receipts or payments in settling these derivative positions.

## Interest Rate Risk

As of September 30, 2009, PVR had \$628.1 million of outstanding indebtedness under the PVR Revolver, which carries a variable interest rate throughout its term. PVR entered into the PVR Interest Rate Swaps to establish fixed interest rates on a portion of the outstanding borrowings under the PVR Revolver. Until March 2010, the notional amounts of the PVR Interest Rate Swaps total \$310.0 million, or 49.4% of PVR's outstanding indebtedness under the PVR Revolver as of September 30, 2009, with PVR paying a weighted average fixed rate of 3.54% on the notional amount, and the counterparties paying a variable rate equal to the three-month LIBOR. From March 2010 to December 2011, the notional amounts of the PVR Interest Rate Swaps total \$250.0 million, or 39.8% of PVR's outstanding indebtedness under the PVR Revolver as of September 30, 2009, with PVR paying a weighted average fixed rate of 3.37% on the notional amount, and the counterparties paying a variable rate equal to the three-month LIBOR. From December 2011 to December 2012, the notional amounts of the PVR Interest Rate Swaps total \$100.0 million, or 15.9% of PVR's outstanding indebtedness under the PVR Revolver as of September 30, 2009, with PVR paying a weighted average fixed rate of 2.09% on the notional amount, and the counterparties paying a variable rate equal to the three-month LIBOR. The PVR Interest Rate Swaps extend one year past the current maturity of the PVR Revolver. A 1% increase in short-term interest rates on the floating rate debt outstanding under the PVR Revolver (net of amounts fixed through the PVR Interest Rate Swaps) as of September 30, 2009 would cost PVR approximately \$3.2 million in additional interest expense per year.

During the first quarter of 2009, PVR discontinued hedge accounting for all of the PVR Interest Rate Swaps. Accordingly, subsequent fair value gains and losses for the PVR Interest Rate Swaps are recognized in earnings currently. Therefore, PVR's results of operations are affected by the volatility of changes in fair value, which fluctuates with changes in interest rates. These fluctuations could be significant. See Note 4, "Derivative Instruments," in the Notes to Condensed Consolidated Financial Statements in Item 1, "Financial Statements," for a further description of PVR's derivatives program.

## Customer Credit Risk

We are exposed to the credit risk of PVR's natural gas midstream customers and coal lessees. For the nine months ended September 30, 2009, two of PVR's natural gas midstream segment customers accounted for \$83.0 million and \$49.2 million, or 18% and 11%, of our total consolidated revenues. At September 30, 2009, 23% of our consolidated accounts receivable related to these customers. No significant uncertainties related to the collectability of amounts owed to PVR exist in regard to these two natural gas midstream customers.

This customer concentration increases PVR's exposure to credit risk on its accounts receivables, because the financial insolvency of any of these customers could have a significant impact on PVR's results of operations. If PVR's natural gas midstream customers or coal lessees become financially insolvent, they may not be able to continue to operate or meet their payment obligations to PVR. Any material losses as a result of customer or lessee defaults could harm and have an adverse effect on PVR's business, financial condition or results of operations. Substantially all of PVR's trade accounts receivable are unsecured.

To mitigate the risks of nonperformance by its natural gas midstream customers, PVR performs ongoing credit evaluations of its existing customers. PVR monitors individual customer payment capability in granting credit arrangements to new customers by performing credit evaluations, seek to limit credit to amounts PVR believes the customers can pay and maintains reserves PVR believes are adequate to cover exposure for uncollectible accounts. As of September 30, 2009, no receivables were collateralized, and we had a \$1.4 million allowance for doubtful accounts, of which \$1.3 million was related to the PVR natural gas midstream segment.



Item 4 Controls and Procedures

(a) Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we performed an evaluation of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of September 30, 2009. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported accurately and on a timely basis. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2009, such disclosure controls and procedures were effective.

(b) Changes in Internal Control Over Financial Reporting

No changes were made in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A Risk Factors

If Penn Virginia sells all or a significant part of its remaining partner interests in us, our strategic and operational objectives may change.

In September 2009, Penn Virginia sold approximately one-third of its limited partner interest in us, constituting approximately 26% of our common units. Following such sale, Penn Virginia continued to own the general partner interest in us and approximately 51% of our common units. Penn Virginia may sell all or part of its remaining partner interests in us without our consent or the consent of our unitholders.

Several of the members of our and PVR's management team, including the Chief Executive Officer and Chief Financial Officer of our general partner and PVR's general partner, are also members of Penn Virginia's management team. If Penn Virginia sells all or a significant part of its remaining partner interests in us, our general partner and PVR's general partner may replace some or all of those officers with new members of a management team that may have different strategic or operational objectives for us or PVR. A change in strategic or operational objectives could affect our results of operations and cash available for distribution.

### Item 6 Exhibits

- 10.1 Underwriting Agreement, dated September 10, 2009, among Penn Virginia GP Holdings, L.P., Penn Virginia Resource GP Corp., PVG GP, LLC and Barclays Capital Inc., UBS Securities LLC, J.P. Morgan Securities Inc. and Wells Fargo Securities, LLC, as representatives of the several underwriters listed therein (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on September 14, 2009).
- 12.1 Statement of Computation of Ratio of Earnings to Fixed Charges Calculation.
- 31.1 Certification Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PENN VIRGINIA GP HOLDINGS, L.P.

By: PVG GP, LLC

Date: November 5, 2009

By: /s/ Frank A. Pici  
Frank A. Pici  
Vice President and Chief Financial  
Officer

Date: November 5, 2009

By: /s/ Forrest W. McNair  
Forrest W. McNair  
Vice President and Controller