

Penn Virginia GP Holdings, L.P.

Form 10-Q

May 11, 2009

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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 ended March 31, 2009

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 Number: 1-33171

PENN VIRGINIA GP HOLDINGS, L.P.

(Exact name of registrant as specified in its charter)

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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
(Address of principal executive offices)

19087
(Zip Code)

(610) 687-8900

(Registrant's telephone number, including area code)

(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

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 May 7, 2009, 39,074,500 common limited partner units were outstanding.

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PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES

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Table of Contents**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 March 31,	
	2009	2008
Revenues		
Natural gas midstream	\$ 117,379	\$ 125,048
Coal royalties	30,630	23,962
Coal services	1,888	1,862
Other	6,862	5,942
Total revenues	156,759	156,814
Expenses		
Cost of midstream gas purchased	100,620	99,697
Operating	8,890	6,793
Taxes other than income	1,223	1,072
General and administrative	8,133	7,134
Depreciation, depletion and amortization	16,503	11,500
Total expenses	135,369	126,196
Operating income	21,390	30,618
Other income (expense)		
Interest expense	(5,616)	(4,932)
Other	329	545
Derivatives	(7,161)	7,776
Net Income	8,942	34,007
Less net income attributable to noncontrolling interests	(2,093)	(17,205)
Net income attributable to Penn Virginia GP Holdings, L.P.	\$ 6,849	\$ 16,802
Net income per unit attributable to Penn Virginia G.P. Holdings, L.P. common unitholders, basic and diluted	\$ 0.18	\$ 0.43
Weighted average number of units outstanding, basic and diluted	39,075	39,075

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

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PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - unaudited

(in thousands)

	March 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 21,710	\$ 18,338
Accounts receivable, net of allowance for doubtful accounts	57,237	73,267
Derivative assets	21,692	30,431
Other current assets	4,658	4,263
Total current assets	105,297	126,299
Property, plant and equipment		
Property, plant and equipment	1,109,382	1,093,526
Accumulated depreciation, depletion and amortization	(213,163)	(198,407)
Net property, plant and equipment	896,219	895,119
Equity investments		
Equity investments	80,002	78,442
Intangible assets, net	90,817	92,672
Other long-term assets	43,620	35,142
Total assets	\$ 1,215,955	\$ 1,227,674
Liabilities and Partners' Capital		
Current liabilities		
Accounts payable	\$ 46,896	\$ 60,442
Accrued liabilities	7,127	11,039
Deferred income	3,762	4,842
Derivative liabilities	15,719	13,585
Total current liabilities	73,504	89,908
Deferred income		
Deferred income	5,671	6,150
Other liabilities		
Other liabilities	17,708	18,078
Derivative liabilities		
Derivative liabilities	6,176	6,915
Long-term debt of PVR		
Long-term debt of PVR	595,100	568,100
Partners' capital:		
Penn Virginia GP Holdings, L.P. partners' capital	261,668	269,542
Noncontrolling interests of subsidiaries	256,128	268,981
Total partners' capital	517,796	538,523
Total liabilities and partners' capital	\$ 1,215,955	\$ 1,227,674

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PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - unaudited

(in thousands)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities		
Net income	\$ 8,942	\$ 34,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	16,503	11,500
Derivative contracts:		
Total derivative losses (gains)	7,615	(6,668)
Cash received (paid) to settle derivatives	2,836	(9,522)
Non-cash interest expense	491	164
Equity earnings, net of distributions received	(1,559)	(360)
Other	(207)	(218)
Changes in operating assets and liabilities	(962)	(924)
 Net cash provided by operating activities	 33,659	 27,979
Cash flows from investing activities		
Acquisitions	(1,256)	(20)
Additions to property, plant and equipment	(17,050)	(17,650)
Other	265	341
 Net cash used in investing activities	 (18,041)	 (17,329)
Cash flows from financing activities		
Distributions to partners	(29,988)	(24,172)
Proceeds from borrowings	27,000	25,000
Repayments of borrowings		(23,000)
Payment of debt issuance costs	(9,258)	
 Net cash used in financing activities	 (12,246)	 (22,172)
 Net increase (decrease) in cash and cash equivalents	 3,372	 (11,522)
Cash and cash equivalents beginning of period	18,338	30,503
 Cash and cash equivalents end of period	 \$ 21,710	 \$ 18,981
Supplemental disclosure:		
Cash paid for interest	\$ 6,156	\$ 6,123

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

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PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

March 31, 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 March 31, 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 March 31, 2009, Penn Virginia and its subsidiaries owned an approximately 77% limited partner interest in us.

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

The PVR coal and natural resource management segment primarily involves the management and leasing of coal properties and the subsequent collection of royalties. PVR's coal reserves are primarily located in Kentucky, Virginia, West Virginia, Illinois and New Mexico. 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 PVR natural gas midstream segment is engaged in providing natural gas processing, gathering and other related services. PVR owns and operates natural gas midstream assets located in Oklahoma and Texas. PVR's natural gas midstream business derives 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 (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.

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 us.

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.

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2. Summary of Significant Accounting Policies

Our accounting policies are consistent with those described in our Annual Report on Form 10-K for the year ended December 31, 2008. Please refer to such Form 10-K for a further discussion of those policies.

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. References to the parent company are intended to mean Penn Virginia GP Holdings, L.P. individually as the parent company and not on a consolidated basis.

Our condensed consolidated financial statements include the accounts of the Partnership and all of our wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. PVR owns a 25% member interest in Thunder Creek, a joint venture that gathers and transports coalbed methane in Wyoming's Powder River Basin, and a 50% member interest in a coal handling joint venture. Earnings from PVR's 25% member interest in Thunder Creek are recorded in the other revenues line on the condensed consolidated statements of income and earnings from PVR's 50% member interest in a coal handling venture are recorded in the coal services line on the condensed consolidated statements of income. PVR's investments in these equity affiliates are recorded on the equity investments line on the condensed consolidated balance sheets. 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. These financial statements should be read in conjunction with our condensed 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 months ended March 31, 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.

New Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). This FSP requires disclosures about the fair value of financial instruments whenever we issue financial statements. The disclosures outlined in FSP FAS 107-1 and APB 28-1 are required for interim and annual periods ending after June 15, 2009. Early adoption is permitted for periods ending after March 15, 2009, and we have elected to adopt this FSP for the three months ended March 31, 2009. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. See Note 3, Fair Value Measurements for the disclosure required under FSP FAS 107-1 and APB 28-1.

In April 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141(R)-1). This FSP requires us to recognize assets acquired or liabilities assumed in a business combination that arise from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of an asset acquired or a liability assumed in a business combination that arises from a contingency cannot be determined during the measurement period, an asset or liability shall be recognized at the acquisition at the amount that would be recognized in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies* and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss - an interpretation of FASB Statement No. 5*. Certain disclosures are also required under this standard. FSP FAS 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after December 15, 2008. We have had no material acquisitions since our adoption of this FSP. For each acquisition that includes assets acquired or liabilities assumed arising from contingencies, we will determine the fair value of the assets or liabilities and will make the appropriate disclosures.

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We adopted SFAS No. 157, *Fair Value Measurements*, effective January 1, 2008, for financial assets and liabilities measured on a recurring basis. FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), delayed the application of SFAS No. 157 for nonfinancial assets and liabilities to fiscal years and interim periods beginning after November 15, 2008. Prior to the adoption of FSP FAS 157-2, we only applied fair value measurements to our financial assets and liabilities. Effective January 1, 2009, SFAS No. 157 now applies to both financial and nonfinancial assets and liabilities that are measured and reported on a fair value basis.

Our financial instruments consist of cash and cash equivalents, receivables, accounts payable, derivative instruments and PVR's long-term debt. At March 31, 2009, the carrying values of all of these financial instruments approximated fair value.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 inputs generally provide the most reliable evidence of fair value.

Level 2: Quoted prices in markets that are not active or inputs, which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of certain assets and liabilities by the above SFAS No. 157 categories as of March 31, 2009 (in thousands):

Description	Fair Value Measurements at March 31, 2009	Fair Value Measurements at March 31, 2009, Using Quoted Prices in Active Markets for		
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap liability - current	(6,925)		(6,925)	
Interest rate swap liability - noncurrent	(6,176)		(6,176)	
Commodity derivative assets - current	21,692		21,692	
Commodity derivative liability - current	(8,794)		(8,794)	
Total	\$ (203)	\$	\$ (203)	\$

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

We use the following methods and assumptions to estimate the fair values of the assets and liabilities outlined in the above table:

Interest rate swaps: PVR has entered into interest rate swaps (the PVR Interest Rate Swaps) to establish fixed rates on a portion of the outstanding borrowings under PVR's revolving credit facility (the PVR Revolver). PVR uses an income approach using valuation techniques that connect future cash flows to a single discounted value. PVR estimates the fair value of the swaps based on published interest rate yield curves as of the date of the estimate, and uses discount rates adjusted for the credit risk of the counterparties if the

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derivative is in an asset position and PVR's own credit risk for derivatives in a liability position. This is a Level 2 input. See Note 4 Derivative Instruments.

Commodity derivative instruments: The PVR natural gas midstream segment's commodity derivatives utilize three-way collar derivative contracts. PVR also utilizes a combination of collar derivative contracts and commodity swaps to hedge against the variability in the frac spread. PVR determines the fair values of its commodity derivative agreements based on discounted cash flows based on quoted

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forward prices for the respective commodities, and uses discount rates adjusted for the credit risk of the counterparties if the derivative is in an asset position and PVR's own credit risk for derivatives in a liability position. This is a Level 2 input. PVR uses the income approach, using valuation techniques that convert future cash flows to a single discounted value. See Note 4 Derivative Instruments.

4. Derivative Instruments*PVR Natural Gas Midstream Segment Commodity Derivatives*

PVR utilizes three-way collar derivative contracts to hedge against the variability in cash flows associated with anticipated natural gas midstream revenues and cost of midstream gas purchased. PVR also utilizes a combination of collar derivative contracts and swap contracts to hedge against the variability in its frac spread. PVR's frac spread is the spread between the purchase price for the natural gas PVR purchases from producers and the sale price for natural gas liquids (NGLs) that PVR sells after processing. PVR hedges against the variability in its frac spread by entering into costless collar and swap derivative contracts to sell NGLs forward at a predetermined commodity price and to purchase an equivalent volume of natural gas forward on an MMBtu basis. While the use of derivative instruments limits the risk of adverse price movements, such use may also limit future revenues or cost savings from favorable price movements.

A three-way collar contract consists of a collar contract plus a put option contract sold by PVR with a price below the floor price of the collar. The counterparty to a collar contract is required to make a payment to PVR if the settlement price for any settlement period is below the floor price for such contract. PVR is required to make a payment to the counterparty if the settlement price for any settlement period is above the ceiling price for such contract. Neither party is required to make a payment to the other party if the settlement price for any settlement period is equal to or greater than the floor price and equal to or less than the ceiling price for such contract. The additional put option sold by PVR requires it to make a payment to the counterparty if the settlement price for any settlement period is below the put option price. By combining the collar contract with the additional put option, PVR is entitled to a net payment equal to the difference between the floor price of the collar contract and the additional put option price if the settlement price is equal to or less than the additional put option price. If the settlement price is greater than the additional put option price, the result is the same as it would have been with a collar contract only. If market prices are below the additional put option, PVR would be entitled to receive the market price plus the difference between the additional put option and the floor. See the PVR natural gas midstream segment commodity derivative table in this footnote. This strategy enables PVR to increase the floor and the ceiling prices of the collar beyond the range of a traditional collar contract while defraying the associated cost with the sale of the additional put option.

PVR determines the fair values of its derivative agreements based on discounted cash flows based on quoted forward prices for the respective commodities as of March 31, 2009, using discount rates adjusted for the credit risk of the counterparties if the derivative is in an asset position and PVR's own credit risk for derivatives in a liability position. The following table sets forth PVR's positions as of March 31, 2009 for commodities related to natural gas midstream revenues and cost of midstream gas purchased:

	Average Volume Per Day (in barrels)	Weighted Average Price Collars		Fair Value (in thousands)
		Additional Put Option	Put Call	
Crude Oil Three-way Collar			(per barrel)	
Second Quarter 2009 through Fourth Quarter 2009	1,000	\$ 70.00	\$ 90.00 \$ 119.25	\$ 4,939
Frac Spread Collar	(in MMBtu)		(per MMBtu)	
Second Quarter 2009 through Fourth Quarter 2009	6,000		\$ 9.09 \$ 13.94	5,594
Settlements to be received in subsequent period				2,366
Natural gas midstream segment commodity derivatives - net asset				\$ 12,899

At March 31, 2009, PVR reported a net derivative asset related to the natural gas midstream segment of \$12.9 million. See the *Financial Statement Impact of Derivatives* section below for the impact of the natural gas midstream commodity derivatives on our condensed consolidated statements of income.

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PVR has entered into the PVR Interest Rate Swaps to establish fixed rates on a portion of the outstanding borrowings under the PVR Revolver. The following table sets forth the PVR Interest Rate Swap positions at March 31, 2009:

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

The notional amount of \$310.0 million represents approximately 52% of PVR's total long-term debt outstanding at March 31, 2009. The weighted-average fixed rate is paid by PVR based on the notional amount, with the counterparties paying a variable rate equal to the three-month London Interbank Offered Rate (LIBOR). The PVR Interest Rate Swaps extend one year past the maturity of the PVR Revolver. The PVR Interest Rate Swaps have been entered into with seven financial institution counterparties, with no counterparty having more than 24% of the open positions.

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. At March 31, 2009, a \$3.9 million loss remained in accumulated other comprehensive income (AOCI) related to these discontinued PVR Interest Rate Swap hedges. The \$3.9 million loss will be recognized in earnings through the end of 2011 as the originally forecasted transactions occur.

PVR reported a (i) net derivative liability of \$13.1 million at March 31, 2009 and (ii) loss in AOCI of \$3.9 million at March 31, 2009 related to the PVR Interest Rate Swaps. In connection with periodic settlements, PVR recognized \$0.8 million of net hedging losses in interest expense in the three months ended March 31, 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

In both the three months ended March 31, 2009 and 2008, PVR reclassified a total of \$0.8 million out of AOCI and into earnings. PVR also recorded unrealized hedging losses of \$0.5 million and \$5.1 million in AOCI in the three months ended March 31, 2009 and 2008 related to the PVR Interest Rate Swaps. See Note 6, Noncontrolling Interest, for a detailed schedule of our AOCI.

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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 months ended March 31, 2009 and 2008 (in thousands):

	Location of gain (loss) on derivatives recognized in income	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Derivatives de-designated as hedging instruments under SFAS No. 133:			
Interest rate contracts (1)	Interest expense	\$ (825)	\$ 267
Increase (decrease) in net income resulting from derivatives de-designated as hedging instruments under SFAS No. 133		\$ (825)	\$ 267
Derivatives not designated as hedging instruments under SFAS No. 133:			
Interest rate contracts	Derivatives	\$ (1,114)	\$
Commodity contracts (1)	Natural gas midstream revenues		(2,251)
Commodity contracts (1)	Cost of midstream gas purchased		1,143
Commodity contracts	Derivatives	(6,047)	7,776
Increase (decrease) in net income resulting from derivatives not designated as hedging instruments under SFAS No. 133		\$ (7,161)	\$ 6,668
Total increase (decrease) in net income resulting from derivatives		\$ (7,986)	\$ 6,935
Realized and unrealized derivative impact:			
Cash received for commodity and interest rate contract settlements	Derivatives	2,836	(9,522)
Cash paid for interest rate contract settlements	Interest expense	(370)	267
Non-settlement derivative gains	(2)	(10,452)	16,190
Total increase (decrease) in net income resulting from derivatives		\$ (7,986)	\$ 6,935

(1) This represents amounts reclassified out of AOCI and into earnings. At March 31, 2009, a \$3.9 million loss remained in AOCI related to the PVR Interest Rate Swaps on which PVR discontinued hedge accounting.

(2) This activity represents unrealized gains in the natural gas midstream, cost of midstream gas purchased, interest expense and derivatives lines on our condensed consolidated statements of income.

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 March 31, 2009 and December 31, 2008 (in thousands):

Balance Sheet Location	Fair values as of March 31, 2009		Fair values as of December 31, 2008	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities

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Derivatives de-designated as hedging instruments under SFAS No. 133:					
Interest rate contracts	Derivative liabilities - current	\$	\$	\$	\$ 1,228
Interest rate contracts	Derivative liabilities - noncurrent				1,842
Total derivatives de-designated as hedging instruments under SFAS No. 133					
		\$	\$	\$	\$ 3,070
Derivatives not designated as hedging instruments under SFAS No. 133:					
Interest rate contracts	Derivative liabilities - current	\$	\$ 6,925	\$	\$ 4,663
Interest rate contracts	Derivative liabilities - noncurrent		6,176		5,073
Commodity contracts	Derivative assets/liabilities - current	21,692	8,794	30,431	7,694
Total derivatives not designated as hedging instruments under SFAS No. 133					
		\$ 21,692	\$ 21,895	\$ 30,431	\$ 17,430
Total fair values of derivative instruments					
		\$ 21,692	\$ 21,895	\$ 30,431	\$ 20,500

See Note 3, Fair Value Measurements for a description of how the above financial instruments are valued in accordance with SFAS No. 157.

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The following table summarizes the effect of the PVR Interest Rate Swaps on our total interest expense for the three months ended March 31, 2009 and 2008:

Source	Three Months Ended March 31,	
	2009	2008
	(in thousands)	
Borrowings	\$ (4,868)	\$ (5,687)
Capitalized interest	77	488
Interest rate swaps	(825)	267
Total interest expense	\$ (5,616)	\$ (4,932)

During the three months ended March 31, 2009 and 2008 PVR applied hedge accounting to some of our interest rate hedges. Settlements on the PVR Interest Rate Swaps that follow hedge accounting are recorded as reclassification amounts out of AOCI to interest expense. For the three months ended March 31, 2009 we reclassified \$0.8 million in interest rate swap cash payments to interest expense, and \$0.3 million in interest rate swap cash receipts for the same period in 2008.

The effects of derivative gains (losses), cash settlements of PVR's natural gas midstream commodity derivatives and cash settlements of the PVR Interest Rate Swaps are reported as adjustments to reconcile net income to net cash provided by operating activities on our condensed consolidated statements of cash flows. These items are recorded in the Total derivative losses (gains) and Cash settlements of derivatives lines on the condensed consolidated statements of cash flows.

At March 31, 2009, we reported a net commodity derivative asset related to the PVR natural gas midstream segment of \$12.9 million that is with two counterparties, which are financial institutions, and 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 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 March 31, 2009 and March 31, 2008. No significant uncertainties related to the collectability of amounts owed to PVR exist with regard to these counterparties.

The above hedging activity represents cash flow hedges. As of March 31, 2009, PVR did not own derivative instruments that were classified as fair value hedges or trading securities. In addition, as of March 31, 2009, PVR did not own derivative instruments containing 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. 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 LIBOR, plus an applicable margin ranging from 1.75% to 2.75% if PVR selects the LIBOR-based borrowing option. As of March 31, 2009 and March 31, 2008 the interest rate on the PVR Revolver was 3.75% and 4.15%, respectively.

6. Noncontrolling Interest

We adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, effective January 1, 2009. SFAS No. 160 requires that the classification of the noncontrolling interests in PVR is to be reported in 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 the condensed consolidated statements of income, applied retrospectively for all periods presented. Comprehensive income attributable to the noncontrolling interest in PVR is separately presented in our schedule of comprehensive income. SFAS No. 160 also requires that gains from the sales of subsidiary stock 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.

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

	Penn Virginia GP Holdings, L.P. Unitholders	Noncontrolling Interest	Total (in thousands)	Comprehensive Income (Loss)
Balance at December 31, 2008	\$ 269,542	\$ 268,981	\$ 538,523	
Distributions paid (\$0.38 per unit)	(14,848)	(15,140)	(29,988)	
Comprehensive income:				
Net income	6,849	2,093	8,942	8,942
Unrealized losses on derivative activities	(198)	(308)	(506)	(506)
Reclassification adjustments for derivative activities	323	502	825	825
Balances at March 31, 2009	\$ 261,668	\$ 256,128	\$ 517,796	\$ 9,261
Balance at December 31, 2007	\$ 224,502	\$ 156,957	\$ 381,459	
Distributions paid (\$0.32 per unit)	(12,504)	(11,668)	(24,172)	
Comprehensive income:				
Net income	16,802	17,205	34,007	34,007
Unrealized losses on derivative activities	(2,252)	(2,890)	(5,142)	(5,142)
Reclassification adjustments for derivative activities	368	473	841	841
Balances at March 31, 2008	\$ 226,916	\$ 160,077	\$ 386,993	\$ 29,706

7. Cash Distributions

The following table reflects the allocation of total cash distributions paid by us during the three months ended March 31, 2009 and 2008:

Unitholders	Three Months Ended March 31,	
	2009	2008
	(in thousands, except per unit data)	
Publicly held unitholders	\$ 11,429	\$ 10,268
Penn Virginia Corporation	3,419	2,236
Total cash distributions paid	\$ 14,848	\$ 12,504

Total cash distributions paid per unit \$ 0.38 \$ 0.32

On May 20, 2009, we will pay a \$0.38 per unit quarterly distribution to unitholders of record on May 4, 2009. On May 15, 2009, PVR will pay a \$0.47 per unit quarterly distribution to unitholders of record on May 4, 2009. Both distributions were unchanged from the previous distributions paid in February 2009.

8. Related-Party Transactions

General and Administrative

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Penn Virginia charges us for certain corporate administrative expenses which are allocable to us and our 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. Total corporate administrative expenses charged to us and our subsidiaries totaled \$1.7 million for both the three months ended March 31, 2009 and 2008. Total corporate administrative expenses that Penn Virginia charged to PVR totaled \$1.5 million for both the three months ended March 31, 2009 and 2008. These costs are reflected in general and administrative expenses in 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.

Table of Contents*Accounts Payable Affiliate*

Amounts payable to related parties totaled \$4.7 million and \$8.1 million as of March 31, 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), related to the natural gas gathering and processing agreement between PVR East Texas Gas Processing, LLC (PVR East Texas) and PVOG LP. See *Gathering and Processing Revenues*. These balances are included in accounts payable 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, PVOG LP and Connect Energy have agreed that Connect Energy will market 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 \$0.4 million and \$0.7 million for the three months ended March 31, 2009 and 2008. Marketing revenues are included in other revenues on our condensed consolidated statements of income.

Gathering and Processing Revenues

PVR East Texas and PVOG LP are parties to a natural Gas Gathering and Processing Agreement. Pursuant to the Gas Gathering and Processing Agreement, PVOG LP and PVR East Texas have agreed that PVR East Texas will gather and process all of PVOG LP's current and future gas production in certain areas of the Bethany Field in East Texas and redeliver the NGLs to PVOG LP for a \$0.30/MMBtu service fee (with an annual CPI adjustment). The Gas Gathering and Processing Agreement has a primary term of 15 years 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 June 2008. In the three months ended March 31, 2009, PVOG LP paid PVR East Texas \$0.7 million in fees pursuant to the Gas Gathering and Processing Agreement. These gathering and processing revenues are recorded in the natural gas midstream line on our condensed consolidated statements of income.

From time to time, PVOG LP sells gas or NGLs to Connect Energy at PVR's Crossroads Plant, Connect Energy transports them to the marketing location, and then Connect Energy resells such gas or NGLs 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. In the three months ended March 31, 2009, PVOG LP received \$0.4 million from Connect Energy in connection with such sales. In the three months ended March 31, 2009, PVR recorded \$21.2 million of natural gas midstream revenue and \$21.2 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 it to third parties. These transactions do not impact the gross margin, nor do they impact operating income other than the processing and marketing fee noted above.

9. Unit-Based Compensation

PVR recognized a total of \$1.4 million and \$0.7 million for the three months ended March 31, 2009 and 2008 of compensation expense related to the granting of common units and deferred common units and the vesting of restricted units granted under the long-term incentive plan. During the three months ended March 31, 2009, PVR's general partner granted 354,792 phantom units with a weighted average grant date fair value of \$11.59 per unit to employees of Penn Virginia and its affiliates. During the same period, 98,322 restricted units with a weighted average grant date fair value of \$27.44 per unit vested. The phantom units granted in 2009 vest over a three-year period, with one-third vesting in each year. PVR recognizes compensation expense on a straight-line basis over the vesting period. These expenses are recorded on the general and administrative expense line on our condensed consolidated statements of income.

The Penn Virginia Resource GP, LLC Fifth Amended and Restated Long-Term Incentive Plan, or PVR's LTIP, permits the grant of phantom units to employees and directors. No grants of phantom units were made under PVR's LTIP in 2008. A phantom unit entitles the grantee to receive a common unit upon the vesting of the phantom unit, or in the discretion of PVR's Compensation and Benefits Committee, the cash equivalent of the value of a common unit. In addition, all phantom units will vest upon a change of control. If a director's membership on the board of directors of PVR's general partner terminates for any reason, or an employee's employment with PVR's general partner and its affiliates terminates for any reason other than retirement after reaching age 62 and completing 10 years of consecutive service, the grantee's phantom units will be automatically forfeited unless, and to the extent, PVR's Committee provides otherwise. Common units delivered upon the vesting of phantom units may be newly issued units, common units acquired by PVR's general partner in the open market, common units already owned by PVR's general partner, common units acquired by PVR's general partner directly from us or any other person, or any combination of the foregoing.

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10. Commitments and Contingencies

Legal

We 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

PVR's operations and those of its 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 material impact on its financial condition or results of operations.

As of March 31, 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.

11. Segment Information

Segment information has been prepared in accordance with SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*. Under SFAS No. 131, operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision-making group, in assessing performance. Our decision-making group consists of PVR's Chief Executive Officer and other senior officers. This group routinely reviews and makes operating and resource allocation decisions among the PVR coal and natural resource segment's management operations and the PVR natural gas midstream segment's operations. Accordingly, our reportable segments are as follows:

PVR Coal and Natural Resource Management management and leasing of coal properties and subsequent collection of royalties; other land management activities such as selling standing timber; leasing of fee-based coal-related infrastructure facilities to certain lessees and end-user industrial plants; collection of oil and gas royalties; and coal transportation, or wheelage, fees.

PVR Natural Gas Midstream natural gas processing, gathering and other related services.
The corporate and other line primarily represents corporate functions.

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The following table presents a summary of certain financial information relating to our segments as of and for the three months ended March 31, 2009 and 2008 (in thousands):

	Revenues		Operating income (loss)	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2009	2008	2009	2008
Coal and natural resource	\$ 38,252	\$ 30,294	\$ 24,974	\$ 17,582
Natural gas midstream	118,507	126,520	(3,047)	13,652
Corporate and other			(537)	(616)
Consolidated totals	\$ 156,759	\$ 156,814	\$ 21,390	\$ 30,618
Interest expense			(5,616)	(4,932)
Other			329	545
Derivatives			(7,161)	7,776
Net income attributable to noncontrolling interest			(2,093)	(17,205)
Net income attributable to Penn Virginia GP Holdings, L.P.			\$ 6,849	\$ 16,802

	Additions to property and equipment and acquisitions		DD&A expense	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2009	2008	2009	2008
Coal and natural resource	\$ 1,300	\$ 48	\$ 7,394	\$ 6,413
Natural gas midstream	17,006	17,622	9,109	5,087
Corporate and other				
Consolidated totals	\$ 18,306	\$ 17,670	\$ 16,503	\$ 11,500

	Total assets at	
	March 31, 2009	December 31, 2008
Coal and natural resource	\$ 609,372	\$ 600,418
Natural gas midstream	597,347	618,402
Corporate and other	9,236	8,854
Consolidated totals	\$ 1,215,955	\$ 1,227,674

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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 (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, which is our only class of security currently outstanding.

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.

PVR IDRs

In accordance with PVR's partnership agreement, IDRs represent the right to receive an increasing percentage of quarterly distributions of PVR's available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. The minimum quarterly distribution is \$0.25 per unit. We currently hold 100% of the IDRs through our ownership of PVR's general partner, but may transfer these rights separately to an affiliate (other than an individual) or to another entity as part of PVR's general partner's merger or consolidation of PVR's general partner with or into such entity or the transfer of all or substantially all of PVR's general partner's assets to another entity without the prior approval of PVR's unitholders if the transferee agrees to be bound by the provisions of PVR's partnership agreement. Prior to September 30, 2011, other transfers of the IDRs will require the affirmative vote of holders of a majority of the outstanding PVR common units. On or after September 30, 2011, the IDRs will be freely transferable. The IDRs are payable as follows:

If for any quarter:

PVR has distributed available cash from operating surplus to its common unitholders in an amount equal to the minimum quarterly distribution; and

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PVR has distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

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then, PVR will distribute any additional available cash from operating surplus for that quarter among the unitholders and us, as the owner of PVR's general partner, in the following manner:

First, 98% to all unitholders, and 2% to us, as the owner of PVR's general partner, until each unitholder has received a total of \$0.275 per unit for that quarter;

Second, 85% to all unitholders, and 15% to us, as the owner of PVR's general partner, until each unitholder has received a total of \$0.325 per unit for that quarter;

Third, 75% to all unitholders, and 25% to us, as the owner of PVR's general partner, until each unitholder has received a total of \$0.375 per unit for that quarter; and

Thereafter, 50% to all unitholders and 50% to us, as the owner of PVR's general partner.

Since 2001, PVR has increased its quarterly cash distribution from \$0.25 per unit to \$0.47 per unit, which is its most recently declared distribution. These increased cash distributions by PVR have placed us at the maximum target cash distribution level as described above and as a consequence, since reaching such level, we have received 50% of available cash in excess of \$0.375 per unit.

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 a noncontrolling interest 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. Both in its current limited partnership form and in its previous corporate form, PVR has managed coal properties since 1882. PVR currently conducts operations in two business segments: (i) coal and natural resource management and (ii) natural gas midstream. Our operating income was \$21.4 million in the three months ended March 31, 2009, compared to \$30.6 million in the same period of 2008. In the three months ended March 31, 2009, the PVR coal and natural resource management segment contributed \$24.9 million, or 117%, to operating income. This contribution to operating income is partially offset by \$3.0 million of operating losses in the PVR natural gas midstream segment, or 14%, and \$0.5 million of operating expenses from the corporate and other expenses, or 3%.

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The following table presents a summary of certain financial information relating to our segments for the three months ended March 31, 2009 and 2008:

	PVR Coal and Natural Resource Management	PVR Natural Gas Midstream	Corporate and Other	Consolidated
	(in thousands)			
For the Three Months Ended March 31, 2009				
Revenues	\$ 38,252	\$ 118,507	\$	\$ 156,759
Cost of midstream gas purchased		100,620		100,620
Operating costs and expenses	5,884	11,825	537	18,246
Depreciation, depletion and amortization	7,394	9,109		16,503
Operating income	\$ 24,974	\$ (3,047)	\$ (537)	\$ 21,390
For the Three Months Ended March 31, 2008				
Revenues	\$ 30,294	\$ 126,520	\$	\$ 156,814
Cost of midstream gas purchased		99,697		99,697
Operating costs and expenses	6,299	8,084	616	14,999
Depreciation, depletion and amortization	6,413	5,087		11,500
Operating income	\$ 17,582	\$ 13,652	\$ (616)	\$ 30,618

The deterioration in global financial markets which began during the third quarter of 2008 and the consequential adverse effect on credit availability continues to adversely impact PVR's access to new capital and credit availability. Depending on the longevity and ultimate severity of this deterioration, PVR's ability to conduct a growth oriented capital spending program will be adversely affected, as could PVR's ability to make cash distributions to its limited partners and to us, the owner of PVR's general partner.

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 PVR's properties. PVR does not operate any mines. In the three months ended March 31, 2009, PVR's lessees produced 8.7 million tons of coal from its properties and paid to PVR coal royalties revenues of \$30.6 million, for an average royalty per ton of \$3.50. Approximately 82% of PVR's coal royalties revenues in the three months ended March 31, 2009 were derived from coal mined on its 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.

Coal royalties are impacted by several factors that PVR generally cannot control. The number of tons mined annually is determined by an operator's mining efficiency, labor availability, geologic conditions, access to capital, ability to market coal and ability to arrange reliable transportation to the end-user. New legislation or regulations have been or may be adopted which may have a significant impact on the mining operations of PVR's lessees or their customers' ability to use coal and which may require PVR, PVR's lessees or PVR's lessees' customers to change operations significantly or incur substantial costs.

To a lesser extent, coal prices also impact coal royalties revenues. Generally, as coal prices change, PVR's average royalty per ton also changes because the majority of PVR's lessees pay royalties based on the gross sales prices of the coal mined. Most of PVR's coal is sold by its lessees under contracts with a duration of one year or more; therefore, changes to PVR's average royalty occur as PVR's lessees' contracts are renegotiated.

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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. Limited access to capital has and could continue to hamper PVR's ability to

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fund acquisitions, potentially restricting future growth potential. Depending on the longevity and ultimate severity of the deterioration, demand for coal may continue to decline, which could adversely effect production and pricing for coal mined by PVR's lessees, and, consequently, adversely affect the royalty income received by PVR and its ability to make cash distributions to its limited partners and to us, the owner of PVR's general partner.

PVR Natural Gas Midstream Segment

The PVR natural gas midstream segment is engaged in providing natural gas processing, gathering and other related services. As of March 31, 2009, PVR owned and operated natural gas midstream assets located in Oklahoma and Texas, including five natural gas processing facilities having 300 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.

In the three months ended March 31, 2009, system throughput volumes at PVR's gas processing plants and gathering systems, including gathering-only volumes, were 32.3 Bcf, or approximately 359 MMcfd. In the three months ended March 31, 2009, 25% and 14% of the PVR natural gas midstream segment revenues and 19% and 10% of our total consolidated revenues were derived from two of the PVR natural gas midstream segment's customers, Conoco, Inc. and Louis Dreyfus Energy Services.

PVR continually seeks new supplies of natural gas to both 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 three months ended March 31, 2009, the PVR natural gas midstream segment made aggregate capital expenditures of \$14.5 million, primarily related to PVR's Panhandle System where producers continue to develop.

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. Historically, changes in the prices of most NGL products have generally correlated with changes in the price of crude oil. 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 in the global economy, including financial and credit markets, has resulted in a decrease in worldwide demand for oil and domestic demand for natural gas and NGLs. Limited access to capital could continue to hamper PVR's ability to fund acquisitions, potentially restricting future growth potential. Depending on the longevity and ultimate severity of the deterioration, NGL production from its processing plants could decrease and adversely effect PVR's natural gas midstream processing income and PVR's ability to make cash distributions.

Corporate and other

Corporate and other primarily represents corporate functions.

Liquidity and Capital Resources*Liquidity and Working Capital*

Liquidity is defined as the ability to convert assets into cash or to obtain cash. Short-term liquidity refers to the ability to meet short-term obligations of 12 months or less. Liquidity is a matter of degree and is expressed in terms of working capital and the current ratio and, due to the recent deterioration of the credit and financial markets, in terms of the availability of borrowing capacity against existing credit facilities and debt instruments. Our consolidated working capital (current assets minus current liabilities) and consolidated current ratio (current assets divided by current liabilities) are as follows as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Current Assets	\$ 105,297	\$ 126,299
Current Liabilities	73,504	89,908

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Working Capital	\$	31,793	\$	36,391
Current Ratio		1.43		1.40

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Because we and PVR operate with independent capital structures, an important indicator of liquidity is the availability of borrowing capacity. As discussed in more detail in Long-Term Debt below, as of March 31, 2009, PVR had availability of \$203.3 million on its recently expanded \$800.0 million revolving credit facility, or the PVR Revolver.

We rely exclusively on distributions from PVR to fund our general and administrative costs of being a public company. 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 PVR Revolver and proceeds from PVR equity offerings. 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 and anticipated capital expenditures (other than major capital improvements or acquisitions). PVR believes that the cash generated from its operations will be sufficient to meet its scheduled debt payments under the PVR Revolver and its distribution payments.

PVR's ability to satisfy its obligations and planned expenditures 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. During the first quarter of 2009, PVR completed an amendment to increase the borrowing base under the PVR Revolver, with resultant borrowing availability of \$203.3 million as of March 31, 2009. However, depending on the longevity and ultimate severity of the recent deterioration of the global economy, including financial and credit markets, PVR's ability in the future to grow organically or through acquisitions may be significantly adversely affected, as may PVR's ability to make cash distributions to its limited partners and to us, the owner of PVR's general partner.

Table of Contents*Cash Flows*

The following table summarizes our cash flow statements for the three months ended March 31, 2009 and 2008, consolidating our segments:

For the Three Months Ended March 31, 2009	PVR Coal and Natural Resource Management	PVR Natural Gas Midstream	Corporate and Other	Consolidated
	(in thousands)			
Cash flows from operating activities:				
Net income (loss) contribution	\$ 18,537	\$ (9,069)	\$ (526)	\$ 8,942
Adjustments to reconcile net income to net cash provided by operating activities (summarized)	7,690	17,901	88	25,679
Net change in operating assets and liabilities	(3,896)	3,210	(276)	(962)
Net cash provided by (used in) operating activities	\$ 22,331	\$ 12,042	\$ (714)	33,659
Net cash used in investing activities	\$ (1,035)	\$ (17,006)	\$	(18,041)
Net cash used in financing activities				(12,246)
Net increase in cash and cash equivalents				\$ 3,372

For the Three Months Ended March 31, 2008	Coal and Natural Resource Management	Natural Gas Midstream	Corporate and Other	Consolidated
	(in thousands)			
Cash flows from operating activities:				
Net income (loss) contribution	\$ 12,521	\$ 22,019	\$ (533)	\$ 34,007
Adjustments to reconcile net income to net cash provided by operating activities (summarized)	5,891	(11,086)	91	(5,104)
Net change in operating assets and liabilities	(4,418)	3,919	(425)	(924)
Net cash provided by (used in) operating activities	\$ 13,994	\$ 14,852	\$ (867)	27,979
Net cash provided by (used in) investing activities	\$ 293	\$ (17,622)	\$	(17,329)
Net cash used in financing activities				(22,172)
Net decrease in cash and cash equivalents				\$ (11,522)

Net Cash Provided by Operating Activities

Changes to our working capital and to our current ratio are largely affected by net cash provided by PVR's operating activities. Net cash provided by PVR's operating activities primarily came from the following sources:

PVR coal and natural resource management segment:

the collection of coal royalties;

the sale of standing timber;

the collection of coal transportation, or wheelage, fees;

distributions received from PVR's equity investees; and

settlements from PVR's interest rate swaps, or the PVR Interest Rate Swaps.

PVR natural gas midstream segment:

the collection of revenues from natural gas processing contracts with natural gas producers;

the collection of revenues from PVR's natural gas marketing business; and

settlements from PVR's natural gas midstream commodity derivatives.

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PVR uses the cash provided by operating activities in the PVR coal and natural resource management segment and the PVR natural gas midstream segment in the following ways:

operating expenses, such as core-hole drilling costs and repairs and maintenance costs;

taxes other than income, such as severance and property taxes;

general and administrative expenses, such as office rentals, staffing costs and legal fees;

interest on debt service obligations;

capital expenditures;

repayments of borrowings; and

distributions to PVR's partners.

On a stand-alone basis, our working capital and current ratio are primarily affected by cash distributions that we pay to our partners.

Net cash provided by operating activities in the three months ended March 31, 2009 increased by \$5.7 million, or 20%, to \$33.7 million from \$28.0 million in the same period of 2008. The overall increase in net cash provided by operating activities was primarily attributable to increased coal royalties received, which was driven primarily by increased production and sales prices of coal in all regions and an increase in cash received from the settlement of PVR's derivative positions. These increases were partially offset by decreased cash received from the sales of residue gas and NGLs, which was primarily driven by a decrease in commodity prices for natural gas and NGLs. See Results of Operations PVR Coal and Natural Resource Management Segment and Results of Operations PVR Natural Gas Midstream Segment for a more detailed explanation of the factors that increased cash provided by PVR's operating activities.

Net Cash Used in Investing Activities

We do not own any property, plant and equipment on a stand-alone basis, nor did we have investing activities on a stand-alone basis for the three months ended March 31, 2009 or 2008. Net cash used by PVR in its investing activities in the three months ended March 31, 2009 increased by \$0.7 million, or 4%, to \$18.0 million from \$17.3 million in the same period of 2008. The cash used by PVR in its investing activities for the three months ended March 31, 2009 and 2008 were used primarily for capital expenditures. The following table sets forth PVR's capital expenditures by segment made during the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,	
	2009	2008
	(in thousands)	
Coal and natural resource management		
Acquisitions	\$ 1,256	\$ 20
Other property and equipment expenditures	44	28
Total	1,300	48

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Natural gas midstream		
Expansion capital expenditures	11,200	16,373
Other property and equipment expenditures	3,282	3,106
 Total	 14,482	 19,479
 Total capital expenditures	 \$ 15,782	 \$ 19,527

In the three months ended March 31, 2009, PVR made aggregate capital expenditures of \$15.8 million. These capital expenditures consisted primarily of expansion capital expenditures in the PVR natural gas midstream segment, primarily to develop additional processing capacity in its Panhandle System. The PVR natural gas midstream segment also incurred approximately \$3.3 million of maintenance capital expenditures for equipment overhauls and connecting wells in existing areas.

In the three months ended March 31, 2008, PVR made aggregate capital expenditures of \$19.5 million. These capital expenditures consisted primarily of the PVR natural gas midstream segment gathering system expansion projects. The PVR natural gas midstream segment also incurred \$3.1 million of maintenance capital expenditures for equipment overhauls and connecting wells in existing areas.

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PVR funded its coal and natural resource management and natural gas midstream capital expenditures in the three months ended March 31, 2009 and 2008 primarily with cash provided by operating activities and borrowings under the PVR Revolver. See [Future Capital Needs and Commitments](#) for an analysis of future capital expenditures and the sources for funding those expenditures.

Net Cash Used In Financing Activities

Net cash used in financing activities in the three months ended March 31, 2009 decreased by \$10.0 million, or 45%, to \$12.2 million from \$22.2 million in the same period of 2008. Over the comparative periods, we had an increase in cash distributions to partners, which was related to an increase in the distribution per unit; and to \$9.3 million of debt issuance costs that were paid by PVR in the three months ended March 31, 2009. These increases in cash used in financing activities were partially offset by an increase in net proceeds from PVR's long-term borrowings. See [Long-Term Debt](#) below for a more detailed description of PVR's March 31, 2009 long-term debt balance. Net cash provided by financing activities in the three months ended March 31, 2009 and 2008 was used primarily for capital expenditures.

The cash distribution per unit that will be paid to our partners in May 2009 for the first quarter of 2009 will be unchanged from the distribution paid in February 2009. We will continue to be cautious about increasing and maintaining cash distributions to unitholders in the foreseeable future in order to preserve cash liquidity in light of uncertain commodity and financial markets.

Long-Term Debt

As of March 31, 2009, we had no outstanding borrowings other than the borrowings of PVR discussed below, which are included in our condensed consolidated financial statements.

PVR Revolver. 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 March 31, 2009, net of outstanding borrowings of \$595.1 million and letters of credit of \$1.6 million, PVR had remaining borrowing capacity of \$203.3 million on the PVR Revolver. 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. In the three months ended March 31, 2009, PVR incurred commitment fees of \$0.1 million on the unused portion of the PVR Revolver. The interest rate under the PVR Revolver fluctuates based on the ratio of PVR's total indebtedness-to-EBITDA. 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, or LIBOR, plus an applicable margin ranging from 1.75% to 2.75% if PVR selects the LIBOR-based borrowing option. At March 31, 2009, the weighted average interest rate on borrowings outstanding under the PVR Revolver was approximately 3.75%. PVR does not have a public credit rating for the PVR Revolver.

The financial covenants under the PVR Revolver require PVR not to exceed specified ratios. PVR is required to maintain a debt-to-consolidated EBITDA ratio of less than 5.25-to-1.0 and at March 31, 2009, the ratio was 3.37-to-1.0. PVR is also required to maintain a consolidated EBITDA-to-interest expense ratio of greater than 2.5-to-1.0 and at March 31, 2009, the ratio was 6.31-to-1.0. EBITDA, which is a non-GAAP measure, is generally defined in the PVR Revolver as PVR's net income before the effects of interest expense, interest income, depreciation, depletion and amortization, or DD&A, expense, impairments and other similar charges and non-cash hedging activity. In addition, the PVR Revolver contains various covenants that limit PVR's ability to incur indebtedness, grant liens, make certain loans, acquisitions and investments, make any material change to the nature of PVR's business or enter into a merger or sale of PVR's assets, including the sale or transfer of interests in its subsidiaries. As of March 31, 2009, PVR was in compliance with all of its covenants under the PVR Revolver.

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In the event that PVR would be in default of its covenants, PVR could appeal to the banks for a waiver of the covenant default. Should the banks deny PVR's appeal to waive the covenant default, the outstanding borrowings under the PVR Revolver would become payable upon demand and would be reclassified to the current liabilities section of our condensed consolidated balance sheet. The PVR Revolver contains cross-default provisions for default of indebtedness of more than \$7.5 million. The PVR Revolver does not contain a subjective acceleration clause. The PVR Revolver prohibits PVR from making distributions to its partners if any potential default, or event of default, as defined in the PVR Revolver, occurs or would result from the distributions.

PVR Interest Rate Swaps. PVR has entered into the PVR Interest Rate Swaps to establish fixed 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 approximately 52% of PVR's total long-term debt outstanding as of March 31, 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 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 Interest Rate Swaps total \$100.0 million, 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 maturity of the current PVR Revolver. The PVR Interest Rate Swaps have been entered into with seven financial institution counterparties, with no counterparty having more than 24% of the open positions. After considering the applicable margin of 2.00% in effect as of March 31, 2009, the total interest rate on the \$310.0 million portion of PVR Revolver borrowings covered by the PVR Interest Rate Swaps was 5.54% at March 31, 2009. PVR monitors changes in its counterparties and are not aware of any specific concerns regarding PVR's counterparties' ability to make payments under any of the PVR Interest Rate Swaps.

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 its short-term cash requirements for operating expenses and quarterly distributions to us, as the owner of PVR's general partner, and unitholders will be funded through operating cash flows. PVR also believes that its remaining borrowing capacity of \$203.3 million will be sufficient for its capital needs and commitments for the remainder of 2009. For the remainder of 2009, PVR anticipates making capital expenditures, excluding acquisitions, of approximately \$47.0 to \$53.0 million. The majority of the 2009 capital expenditures are expected to be incurred in the PVR natural gas midstream segment. Long-term cash requirements for acquisitions and other capital expenditures are expected to be funded by several sources, including cash flows from operating activities, borrowings under the PVR Revolver and the issuances of additional debt and equity securities if available under commercially acceptable terms.

Part of PVR's long-term strategy is to increase cash available for distribution to PVR's unitholders by making acquisitions and other capital expenditures. PVR's ability to make these acquisitions and other capital expenditures in the future will depend largely on the availability of debt financing and on PVR's ability to periodically use equity financing through the issuance of new common units. Future financing will depend on various factors, including prevailing market conditions, interest rates and PVR's financial condition and credit rating.

The recent 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 started to arise in 2009, with issuances of debt and equity securities by other publicly traded partnerships, the short-term outlook remains uncertain with respect to PVR's ability to access the capital markets on acceptable terms. If the situation worsens and 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 limited. 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 or not dilutive to PVR's future earnings.

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Results of Operations

Selected Financial Data Consolidated

The following table sets forth a summary of certain consolidated financial data for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31, 2009	2008
	(in thousands, except per unit data)	
Revenues		