
**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 June 30, 2010

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**FOUR RADNOR CORPORATE CENTER, SUITE 200
100 MATSONFORD ROAD
RADNOR, PA 19087**

(Address of principal executive offices)

(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 July 20, 2010, 39,074,500 common units representing limited partner interests were outstanding.

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
CONSOLIDATED STATEMENTS OF INCOME – unaudited
(in thousands, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues				
Natural gas midstream	\$146,546	\$113,060	\$317,155	\$230,439
Coal royalties	34,879	29,997	63,105	60,627
Coal services	2,028	1,745	4,001	3,633
Other	5,979	4,617	11,649	11,479
Total revenues	<u>189,432</u>	<u>149,419</u>	<u>395,910</u>	<u>306,178</u>
Expenses				
Cost of gas purchased	121,659	92,154	263,454	192,774
Operating	10,261	9,715	20,569	19,460
General and administrative	15,539	9,102	25,338	17,603
Depreciation, depletion and amortization	18,263	17,617	36,081	34,120
Total expenses	<u>165,722</u>	<u>128,588</u>	<u>345,442</u>	<u>263,957</u>
Operating income	<u>23,710</u>	<u>20,831</u>	<u>50,468</u>	<u>42,221</u>
Other income (expense)				
Interest expense	(8,894)	(6,365)	(14,729)	(11,981)
Other	216	347	543	676
Derivatives	7,074	(2,034)	(494)	(9,195)
Net income	<u>22,106</u>	<u>12,779</u>	<u>35,788</u>	<u>21,721</u>
Less net income attributable to noncontrolling interests	<u>(10,550)</u>	<u>(4,440)</u>	<u>(15,807)</u>	<u>(6,533)</u>
Net income attributable to Penn Virginia GP Holdings, L.P.	<u>\$ 11,556</u>	<u>\$ 8,339</u>	<u>\$ 19,981</u>	<u>\$ 15,188</u>
Net income per unit attributable to Penn Virginia GP Holdings, L.P., basic and diluted	\$ 0.30	\$ 0.21	\$ 0.51	\$ 0.39
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 Consolidated Financial Statements.

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

	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 23,546	\$ 19,314
Accounts receivable, net of allowance for doubtful accounts	75,026	82,321
Derivative assets	2,488	1,331
Other current assets	4,699	4,816
Total current assets	<u>105,759</u>	<u>107,782</u>
Property, plant and equipment	1,202,239	1,162,070
Accumulated depreciation, depletion and amortization	(288,108)	(261,226)
Net property, plant and equipment	<u>914,131</u>	<u>900,844</u>
Equity investments	85,211	87,601
Intangible assets, net	80,346	83,741
Derivative assets	1,519	1,284
Other long-term assets	43,663	37,811
Total assets	<u>\$1,230,629</u>	<u>\$1,219,063</u>
Liabilities and Partners' Capital		
Current liabilities		
Accounts payable	\$ 57,482	\$ 61,308
Accrued liabilities	16,705	9,925
Deferred income	3,047	3,839
Derivative liabilities	9,320	11,251
Total current liabilities	<u>86,554</u>	<u>86,323</u>
Deferred income	10,502	5,482
Other liabilities	16,547	17,270
Derivative liabilities	4,043	4,285
PVR senior notes	300,000	—
PVR revolving credit facility	346,490	620,100
Partners' capital		
Penn Virginia GP Holdings, L.P. partners' capital	226,842	249,696
Noncontrolling interests of subsidiaries	239,651	235,907
Total partners' capital	<u>466,493</u>	<u>485,603</u>
Total liabilities and partners' capital	<u>\$1,230,629</u>	<u>\$1,219,063</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Cash flows from operating activities				
Net income	\$ 22,106	\$ 12,779	\$ 35,788	\$ 21,721
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	18,263	17,617	36,081	34,120
Commodity derivative contracts:				
Total derivative (gains) losses	(6,566)	2,951	1,584	10,566
Cash receipts (payments) to settle derivatives	(2,412)	1,613	(4,058)	4,449
Non-cash interest expense	1,367	1,242	2,610	1,733
Non-cash unit-based compensation	4,952	—	5,887	—
Equity earnings, net of distributions received	1,947	489	2,390	(1,070)
Other	(312)	(425)	(614)	(632)
Changes in operating assets and liabilities				
Accounts receivable	1,426	(2,021)	10,930	14,037
Accounts payable	(665)	(2,903)	(4,754)	(13,396)
Accrued liabilities	5,521	4,461	4,779	3,262
Deferred income	767	(783)	728	(2,343)
Other asset and liabilities	(4,524)	3,856	(959)	88
Net cash provided by operating activities	<u>41,870</u>	<u>38,876</u>	<u>90,392</u>	<u>72,535</u>
Cash flows from investing activities				
Acquisitions	(17,835)	(606)	(17,864)	(1,862)
Additions to property, plant and equipment	(16,776)	(15,208)	(24,733)	(32,258)
Other	398	307	670	572
Net cash used in investing activities	<u>(34,213)</u>	<u>(15,507)</u>	<u>(41,927)</u>	<u>(33,548)</u>
Cash flows from financing activities				
Distributions to partners	(30,631)	(29,986)	(60,784)	(59,974)
Proceeds from issuance of senior notes	300,000	—	300,000	—
Proceeds from borrowings	56,000	14,000	66,000	41,000
Repayments of borrowings	(327,610)	(12,000)	(339,610)	(12,000)
Purchase of PVR limited partner units	(1,092)	—	(1,092)	—
Debt issuance costs and other	(8,747)	—	(8,747)	(9,258)
Net cash used in financing activities	<u>(12,080)</u>	<u>(27,986)</u>	<u>(44,233)</u>	<u>(40,232)</u>
Net increase (decrease) in cash and cash equivalents	(4,423)	(4,617)	4,232	(1,245)
Cash and cash equivalents – beginning of period	27,969	21,710	19,314	18,338
Cash and cash equivalents – end of period	<u>\$ 23,546</u>	<u>\$ 17,093</u>	<u>\$ 23,546</u>	<u>\$ 17,093</u>
Supplemental disclosure:				
Cash paid for interest	\$ 4,967	\$ 5,846	\$ 11,396	\$ 12,002

The accompanying notes are an integral part of these Consolidated Financial Statements.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited
June 30, 2010

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 June 30, 2010, 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 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, PVG GP, LLC was a wholly owned subsidiary of Penn Virginia Corporation (“Penn Virginia”) prior to June 2010. Effective June 7, 2010, Penn Virginia completed its divestiture of us with an offering of their remaining 22.6% limited partner interest in us (the “PVG Unit Offering”). After giving effect to the offering, Penn Virginia no longer beneficially owns any limited partner interests in us. Concurrently with the closing of the offering, Penn Virginia caused Penn Virginia Resource GP Corp., one of the selling unitholders, to contribute its 100% membership interest in PVG GP, our general partner, to us. After giving effect to this contribution, Penn Virginia no longer beneficially owns any general partner interests in us. In addition, Penn Virginia caused all but one of its executive officers who are directors on the board of directors of PVG GP to resign. Moreover, after giving effect to the governance changes made subsequent to the offering, Penn Virginia no longer has the right, directly or indirectly, to appoint any directors to the board of directors of our general partner.

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 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.

2. Basis of Presentation

Our 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 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 Consolidated Financial Statements have been included. Our 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, 2009. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

Management has evaluated all activities of the Partnership through the date upon which our Consolidated Financial Statements were issued and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in these Notes.

Certain reclassifications have been made to conform to the current period's presentation of taxes other than income. Historically, we reported taxes other than income as a separate component of expenses. We have reclassified the components of taxes other than income, which primarily related to property taxes and payroll taxes, to operating expense and general and administrative expense for all periods presented.

All dollar amounts presented in the tables to these Notes are in thousands unless otherwise indicated.

3. Fair Value Measurements

We apply the authoritative accounting provisions for measuring fair value of both our financial and nonfinancial assets and liabilities. Fair value is an exit price representing the expected amount we would receive to sell an asset or pay to transfer a liability in an orderly transaction with market participants at the measurement date. 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, 2009.

Our financial instruments that are subject to fair value disclosure consist of cash and cash equivalents, accounts receivable, accounts payable, derivatives and long-term debt. At June 30, 2010, the carrying values of all of these financial instruments, except the long-term debt with fixed interest rates, approximated fair value. The fair value of floating-rate debt approximates the carrying amount because the interest rates paid are based on short-term maturities. The fair value of our fixed-rate long-term debt is estimated based on the published market prices for the same or similar issues. As of June 30, 2010, the fair value of our fixed-rate debt was \$294.0 million.

Recurring Fair Value Measurements

Certain assets and liabilities, including PVR's derivatives, are measured at fair value on a recurring basis in our Consolidated Balance Sheet. The following tables summarize the valuation of our assets and liabilities for the periods presented:

Description	Fair Value Measurements at June 30, 2010	Fair Value Measurements at June 30, 2010, 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 liabilities – current	\$ (6,924)	—	\$ (6,924)	—
Interest rate swap liabilities – noncurrent	(3,514)	—	(3,514)	—
Commodity derivative assets – current	2,488	—	2,488	—
Commodity derivative assets – noncurrent	1,519	—	1,519	—
Commodity derivative liabilities – current	(2,396)	—	(2,396)	—
Commodity derivative liabilities – noncurrent	(529)	—	(529)	—
Total	\$ (9,356)	\$ —	\$ (9,356)	\$ —

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

<u>Description</u>	<u>Fair Value Measurements at December 31, 2009</u>	<u>Fair Value Measurements at December 31, 2009, Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Interest rate swap assets – noncurrent	\$ 1,266	\$ —	\$ 1,266	\$ —
Interest rate swap liabilities – current	(7,710)	—	(7,710)	—
Interest rate swap liabilities – noncurrent	(3,241)	—	(3,241)	—
Commodity derivative assets – current	1,331	—	1,331	—
Commodity derivative assets – noncurrent	18	—	18	—
Commodity derivative liabilities – current	(3,541)	—	(3,541)	—
Commodity derivative liabilities – noncurrent	(1,044)	—	(1,044)	—
Total	<u>\$ (12,921)</u>	<u>\$ —</u>	<u>\$ (12,921)</u>	<u>\$ —</u>

We used the following methods and assumptions to estimate the fair values:

- Commodity derivatives: The PVR natural gas midstream segment utilizes costless collars and swap derivative contracts to hedge against the variability in the fractionation, or frac, spread. PVR determines the fair values of its commodity derivative agreements based on discounted cash flows based on quoted forward prices for the respective commodities. Each of these 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 for the effects of the derivative instruments on our Consolidated Statements of Income.
- PVR interest rate swaps: 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. Each of these is a level 2 input.

4. Derivative Instruments

PVR Natural Gas Midstream Segment Commodity Derivatives

PVR determines the fair values of its derivative agreements using third-party 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

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

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 commodity derivative positions as of June 30, 2010:

	Average Volume Per Day	Swap Price	Weighted Average Price		Fair Value at June 30, 2010 (in thousands)
			Put	Call	
Crude oil collar	(barrels)		(per barrel)		
Third quarter 2010 through fourth quarter 2010	750		\$ 70.00	\$ 81.25	\$ (89)
Crude oil collar	(barrels)		(per barrel)		
Third quarter 2010 through fourth quarter 2010	1,000		\$ 68.00	\$ 80.00	\$ (289)
Natural gas purchase swap	(MMBtu)	(MMBtu)			
Third quarter 2010 through fourth quarter 2010	7,100	\$ 5.885			\$ (1,378)
NGL – natural gasoline collar	(gallons)		(per gallon)		
Third quarter 2010 through fourth quarter 2010	42,000		\$ 1.55	\$ 2.03	\$ 435
NGL – natural gasoline collar	(gallons)		(per gallon)		
First quarter 2011 through fourth quarter 2011	95,000		\$ 1.57	\$ 1.94	\$ 2,374
Crude oil collar	(barrels)		(per barrel)		
First quarter 2011 through fourth quarter 2011	400		\$ 75.00	\$ 98.50	\$ 629
Natural gas purchase swap	(MMBtu)	(MMBtu)			
First quarter 2011 through fourth quarter 2011	6,500	\$ 5.796			\$ (1,053)
Settlements to be received in subsequent period					\$ 453

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 positions of the PVR Interest Rate Swaps for the periods presented:

Term	Notional Amounts (in millions)	Swap Interest Rates (1)		Fair Value June 30, 2010
		Pay	Receive	
March 2010 – December 2011	\$ 250.0	3.37%	LIBOR	\$ (9,939)
December 2011 – December 2012	\$ 100.0	2.09%	LIBOR	\$ (498)

(1) References to LIBOR represent the 3-month rate.

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 caption on our Consolidated Statements of Income. As of June 30, 2010, a \$0.3 million loss remained in accumulated other comprehensive income (“AOCI”) related to the PVR Interest Rate Swaps. The \$0.3 million loss will be recognized in interest expense as the original forecasted PVR Interest Rate Swap transactions occur.

PVR reported a (i) net derivative liability of \$10.4 million at June 30, 2010 and (ii) loss in AOCI of \$0.3 million as of June 30, 2010 related to the PVR Interest Rate Swaps. In connection with periodic settlements, PVR reclassified a total of \$1.1 million of net hedging losses on the PVR Interest Rate Swaps from AOCI to interest expense during the six months ended June 30, 2010. See the “Financial Statement Impact of Derivatives” section below for the impact of the PVR Interest Rate Swaps on our Consolidated Financial Statements.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

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 Consolidated Statements of Income for the periods presented:

	Location of gain (loss) on derivatives recognized in income	Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
Derivatives not designated as hedging instruments:					
Interest rate contracts (1)	Interest expense	(508)	(918)	(1,090)	(1,743)
Interest rate contracts	Derivatives	(2,041)	1,810	(5,171)	696
Commodity contracts	Derivatives	9,115	(3,843)	4,677	(9,890)
Total increase (decrease) in net income resulting from derivatives		<u>\$ 6,566</u>	<u>\$ (2,951)</u>	<u>\$ (1,584)</u>	<u>\$ (10,937)</u>
Realized and unrealized derivative impact:					
Cash received (paid) for commodity and interest rate contract settlements	Derivatives	(2,412)	1,613	(4,058)	4,449
Cash paid for interest rate contract settlements	Interest expense	—	—	—	(370)
Unrealized derivative (gains) losses (2)		8,978	(4,564)	2,474	(15,016)
Total increase (decrease) in net income resulting from derivatives		<u>\$ 6,566</u>	<u>\$ (2,951)</u>	<u>\$ (1,584)</u>	<u>\$ (10,937)</u>

- (1) This represents PVR Interest Rate Swap amounts reclassified out of AOCI and into earnings. By the first quarter of 2009, PVR discontinued cash flow hedge accounting for all PVR Interest Rate Swaps.
- (2) This activity represents unrealized gains in the natural gas midstream, cost of gas purchased, interest expense and derivatives captions on our 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 Consolidated Balance Sheets for the periods presented:

	Balance Sheet Location	Fair values as of June 30, 2010		Fair values as of December 31, 2009	
		Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives not designated as hedging instruments:					
Interest rate contracts	Derivative assets/liabilities – current	\$ —	\$ 6,924	\$ —	\$ 7,710
Interest rate contracts	Derivative assets/liabilities – noncurrent	—	3,513	1,266	3,241
Commodity contracts	Derivative assets/liabilities – current	2,488	2,396	1,331	3,541
Commodity contracts	Derivative assets/liabilities – noncurrent	1,519	529	18	1,044
Total derivatives not designated as hedging instruments		<u>\$ 4,007</u>	<u>\$ 13,362</u>	<u>\$ 2,615</u>	<u>\$ 15,536</u>

See Note 3 for a description of how the above-described financial instruments are valued.

As of June 30, 2010, neither PVR nor we own derivative instruments that were classified as fair value hedges or trading securities. In addition, as of June 30, 2010, neither PVR nor we owned derivative instruments containing credit risk contingencies.

5. Equity Investments

In accordance with the equity method of accounting, PVR recognized earnings of \$4.4 million and \$2.6 million for the six months ended June 30, 2010 and 2009, with a corresponding increase in the investment. The joint ventures generally pay quarterly distributions on their cash flow. PVR received distributions of \$6.7 million and \$1.5 million for the six months ended June 30, 2010 and 2009. Equity earnings related to PVR's 50% interest in Coal Handling Solutions LLC are included in coal services revenues, and equity earnings related to PVR's 25% interest in Thunder Creek Gas Services LLC and PVR's 50% interest in Crosspoint Pipeline LLC are recorded in other revenues on the Consolidated Statements of Income. The equity investments for all joint ventures are included in the equity investments caption on the Consolidated Balance Sheets.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

Summarized financial information of unconsolidated equity investments is as follows for the periods presented:

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Current assets	\$ 37,701	\$ 32,996
Noncurrent assets	\$209,067	\$ 214,463
Current liabilities	\$ 7,390	\$ 4,898
Noncurrent liabilities	\$ 5,505	\$ 5,392
	<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Revenues	\$ 35,122	\$ 29,257
Expenses	\$ 17,107	\$ 17,563
Net income	\$ 18,015	\$ 11,694

6. Long-term Debt

PVR Senior Notes

In April 2010, PVR sold \$300.0 million of unsecured senior notes due on April 15, 2018 (the “PVR Senior Notes”) with an annual interest rate of 8.25%, which is payable semi-annually in arrears on April 15 and October 15 of each year. The PVR Senior Notes were sold at par, equating to an effective yield to maturity of approximately 8.25%. The net proceeds from the sale of the PVR Senior Notes of approximately \$292.6 million, after deducting underwriter fees and expenses of approximately \$7.4 million, were used to repay borrowings under the PVR Revolver. PVR may redeem some or all of the PVR Senior Notes at any time on or after April 15, 2014 at the redemption prices set forth in the indenture governing the PVR Senior Notes and prior to such date at a “make-whole” redemption price. PVR may also redeem up to 35% of the PVR Senior Notes prior to April 15, 2013 with cash proceeds received from certain equity offerings. If PVR sells certain assets and does not reinvest the proceeds or repay senior indebtedness or if PVR experiences a change of control, they must offer to repurchase the PVR Senior Notes. The PVR Senior Notes are senior to any subordinated indebtedness and are effectively subordinated to all of PVR’s secured indebtedness, including PVR’s indebtedness under the PVR Revolver, to the extent of the collateral securing that indebtedness. The obligations under the PVR Senior Notes are fully and unconditionally guaranteed by PVR’s current and future subsidiaries, which are also guarantors under the PVR Revolver.

PVR Revolver

Effective June 7, 2010, PVA completed its divestiture of PVG and as a result, PVA no longer owns any limited or general partner interests in us or PVR. Immediately prior to this divestiture, PVR amended to amend the definition of “Change of Control” thereunder, with the effect that the sale by PVA of its remaining beneficial ownership of common units would not constitute a change of control of us. The amendment of the PVR Revolver also amended the negative covenant restricting the incurrence of indebtedness, with the effect that PVR may issue an additional \$300.0 million of unsecured senior or subordinated notes, in addition to the Senior Notes.

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June 30, 2010

7. Noncontrolling Interests

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:

	Penn Virginia GP Holdings, L.P. Unitholders	Noncontrolling Interests	Total	Comprehensive Income (Loss)
Balance at December 31, 2009	\$ 249,696	\$ 235,907	\$485,603	
Distributions paid	(30,087)	(30,697)	(60,784)	
Unit based compensation	—	5,888	5,888	
Change in ownership	(13,173)	12,081	(1,092)	
Comprehensive income:				
Net income	19,981	15,807	35,788	35,788
Reclassification adjustments for derivative activities	425	665	1,090	1,090
Balances at June 30, 2010	<u>\$ 226,842</u>	<u>\$ 239,651</u>	<u>466,493</u>	<u>\$ 36,878</u>
Balance at December 31, 2008	\$ 269,542	\$ 268,981	538,523	
Distributions paid	(29,696)	(30,280)	(59,976)	
Comprehensive income:				
Net income	15,188	6,533	21,721	21,721
Unrealized losses on derivative activities	(196)	(310)	(506)	(506)
Reclassification adjustments for derivative activities	1,233	510	1,743	1,743
Balances at June 30, 2009	<u>\$ 256,071</u>	<u>\$ 245,434</u>	<u>\$501,505</u>	<u>\$ 22,958</u>

The following table discloses the net income attributable to Penn Virginia GP Holdings, L.P. and transfers to noncontrolling interests for the six months ended June 30, 2010:

Net income attributable to PVG	\$ 19,981
Transfer from noncontrolling interests	
Adjustment in PVG partners' capital for purchase of PVG units	(13,173)
Changes from net income attributable to PVG and transfers from noncontrolling interests	<u>\$ 6,808</u>

8. Cash Distributions

The following table reflects the allocation of total cash distributions paid by us during the periods presented:

Unitholders	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Public unitholders	\$ 11,796	\$ 3,419	\$ 19,015	\$ 6,838
Penn Virginia Corporation	3,443	11,429	11,072	22,858
Total cash distributions paid	<u>\$ 15,239</u>	<u>\$ 14,848</u>	<u>\$ 30,087</u>	<u>\$ 29,696</u>
Total cash distributions paid per unit	\$ 0.39	\$ 0.38	\$ 0.77	\$ 0.76

On August 24, 2010, we will pay a \$0.39 per unit quarterly distribution to unitholders of record on August 18, 2010. This per unit distribution remains unchanged from the previous distribution paid in May 2010.

9. Related-Party Transactions

In June 2010, PVA sold its remaining interest in PVG and as a result, PVA no longer owns any limited or general partner interests in us or PVR. As a result of the divestiture, the related party transactions noted below will now be considered arm's-length and will no longer require separate disclosures. PVG and PVR executed a transition agreement with PVA covering the services of certain shared employees, aiding the transition of corporate and accounting functions that will continue until March 2011. The transition agreement with PVA was approved by the Conflicts Committees of both PVR and PVG. Related party transactions included charges from PVA for certain corporate administrative expenses which are allocable to us and our subsidiaries. Other transactions involved subsidiaries of PVA related to the marketing of natural gas, gathering and processing of natural gas, and the purchase and sale of natural gas and NGLs in which we took title to the products. The income statement and balance sheet amounts noted below represent related party transactions through June 7, 2010 (date of divestiture). Future periodic disclosure of amounts will be historical in nature.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2010	2009	2010	2009
Statement of Income:				
Natural gas midstream revenues	\$ 10,099	\$ 21,246	\$ 29,002	\$ 43,364
Other income	\$ 373	\$ 370	\$ 787	\$ 771
Cost of gas purchased	\$ 9,586	\$ 20,062	\$ 27,780	\$ 41,229
General and administrative	\$ 594	\$ 1,658	\$ 1,906	\$ 3,316

	<u>June 30,</u>	<u>December 31,</u>
	2010	2009
Balance Sheet:		
Accounts receivable	\$ —	\$ 674
Accounts payable	\$ —	\$ 1,816

10. 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. Common units and deferred common units granted under the PVR 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 generally 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. These compensation expenses are recorded in the general and administrative expenses caption on our Consolidated Statements of Income. In 2010, 230,319 phantom units were granted at a weighted average grant-date fair value of \$22.86.

Because PVA’s divestiture of PVG was considered a change of control under the PVR LTIP, all unvested restricted and phantom units granted to employees performing services for the benefit of PVR were considered vested on the date of the divestiture. In total, 400,090 phantom units vested and an equal number of new common PVR units were issued on that date. The restrictions on approximately 36,000 restricted units were also lifted. In connection with the normal three-year vesting and this accelerated vesting of phantom units, PVR recognized non-cash compensation expense of \$5.0 million and \$5.9 million for the three and six months ended June 30, 2010. In connection with the normal three-year vesting and this accelerated vesting of restricted units, PVR recognized compensation expense of \$0.8 million and \$1.2 million for the three and six months ended June 30, 2010. Compensation expense of \$1.3 million and \$2.7 million was recognized for the three and six months ended June 30, 2009.

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 employees and directors of our general partner and affiliates. We recognized compensation expense of \$0.1 million for both the three months ended June 30, 2010 and 2009, and \$0.2 million for the six months ended June 30, 2010 and 2009 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 caption on our Consolidated Statements of Income.

11. 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 June 30, 2010 and December 31, 2009, PVR’s environmental liabilities were \$0.9 and \$1.0 million, which represents PVR’s best estimate of the liabilities as of those dates related to its coal and natural resource management

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
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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 six months ended June 30, 2010, two PVR natural gas midstream segment customers accounted for \$55.1 million and \$41.0 million, or 14% and 10%, of our total consolidated revenues. At June 30, 2010, 21% of our consolidated accounts receivable related to these customers.

12. Segment Information

Our operating segments represent components of our business 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 PVR's coal and natural resource management operations and PVR's natural gas midstream operations. Accordingly, our reportable segments are as follows:

- *PVR Coal and Natural Resource Management* – The PVR coal and natural resource management segment primarily involves the management and leasing of coal properties and the subsequent collection of royalties. PVR also earns revenues from other land management activities, such as selling standing timber, leasing fee-based coal-related infrastructure facilities and collecting oil and gas royalties.
- *PVR Natural Gas Midstream* – The PVR natural gas midstream segment is engaged in providing natural gas processing, gathering and other related services. In addition, PVR owns member interests in a joint ventures that gathers and transports natural gas.
- The corporate and other caption primarily represents corporate functions.

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – unaudited—(Continued)
June 30, 2010

The following tables present a summary of certain financial information relating to our segments for the periods presented:

	<u>Revenues</u>		<u>Operating income</u>	
	<u>Three Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Coal and natural resource management	\$ 40,582	\$ 35,144	\$ 24,781	\$ 20,333
Natural gas midstream	148,850	114,275	95	1,060
Corporate and other	—	—	(1,166)	(562)
Consolidated totals	<u>\$ 189,432</u>	<u>\$ 149,419</u>	<u>\$ 23,710</u>	<u>\$ 20,831</u>
Interest expense			(8,894)	(6,365)
Other			216	347
Derivatives			7,074	(2,034)
Consolidated net income			<u>\$ 22,106</u>	<u>\$ 12,779</u>

	<u>Additions to property and equipment</u>		<u>DD&A expense</u>	
	<u>Three Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Coal and natural resource management	\$ 18,082	\$ 606	\$ 7,379	\$ 8,164
Natural gas midstream	16,529	15,208	10,884	9,453
Consolidated totals	<u>\$ 34,611</u>	<u>\$ 15,814</u>	<u>\$ 18,263</u>	<u>\$ 17,617</u>

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	Revenues		Operating income	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Coal and natural resource management	\$ 74,142	\$ 73,396	\$ 45,142	\$ 45,307
Natural gas midstream	321,768	232,782	7,480	(1,987)
Corporate and other	—	—	(2,154)	(1,099)
Consolidated totals	\$ 395,910	\$ 306,178	\$ 50,468	\$ 42,221
Interest expense			(14,729)	(11,981)
Other			543	676
Derivatives			(494)	(9,195)
Consolidated net income			\$ 35,788	\$ 21,721

	Additions to property and equipment		DD&A expense	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Coal and natural resource management	\$ 18,114	\$ 1,906	\$ 14,705	\$ 15,558
Natural gas midstream	24,483	32,214	21,376	18,562
Consolidated totals	\$ 42,597	\$ 34,120	\$ 36,081	\$ 34,120

	Total assets at	
	June 30,	December 31,
	2010	2009
Coal and natural resource management	\$ 591,088	\$ 574,258
Natural gas midstream	630,868	633,802
Corporate and other	8,673	11,003
Consolidated totals	\$1,230,629	\$1,219,063

PENN VIRGINIA GP HOLDINGS, L.P. AND SUBSIDIARIES
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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, or Exchange Act. 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, natural gas liquids, or 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 business;
- 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 Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2009.

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Additional information concerning these and other factors can be found in our press releases and public periodic filings with the Securities and Exchange Commission. 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 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 Consolidated Financial Statements and Notes thereto in Item 1. All dollar amounts presented in the tables that follow are in thousands unless otherwise indicated.

Overview of Our Business

General

We are a publicly traded Delaware limited partnership formed by Penn Virginia Corporation, or PVA, 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
- 19,639,311 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 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 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.

Key Developments

During the three months ended June 30, 2010, the following general business developments and corporate actions had an impact, or will have impact, on the financial reporting of PVR's results of operations. A discussion of these key developments follows:

2010 Commodity Prices

Coal royalties, which accounted for 86% of the PVR coal and natural resource management segment revenues for the three months ended June 30, 2010 and 85% for the same period in 2009, were higher as compared to 2009. The increase was attributed to increased production and higher realized coal royalty per ton by region. PVR continues to benefit from long-term contract prices our lessees previously negotiated with their customers. However, the state of the global economy, including financial and credit markets, has reduced worldwide demand for coal with resultant price declines. Depending on the longevity of the market deterioration, demand for coal may continue to decline, which could adversely affect production and pricing for coal mined by PVR's lessees.

The average commodity prices for natural gas, crude oil and natural gas liquids, or NGLs, for the second quarter of 2010 fell back from levels experienced in the first quarter of 2010. However, the prices increased for the three months ended June 30, 2010 from the same period of 2009. NGLs refer to ethane, propane, iso butane, normal butane and pentane. The pricing of these commodities directly and indirectly drive our earnings.

Revenues, profitability and the future rate of growth of PVR's natural gas midstream segment are highly dependent on market demand and prevailing 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. As part of PVR's risk management strategy, PVR uses derivative financial instruments to economically hedge NGLs sold and natural gas purchased. PVR's derivative financial instruments include costless collars and swaps. Based upon current volumes, PVR has entered into hedging arrangements covering approximately 60% and 58% of its commodity-sensitive volumes in 2010 and 2011. PVR generally targets hedging 50% to 60% of its commodity-sensitive volumes covering a two-year period.

PVR Midstream Marcellus Shale Construction

Construction efforts continue in Pennsylvania as we work towards building and operating gas gathering pipelines and compression facilities servicing natural gas producers in the Marcellus Shale development. The Wyoming County project became operational during June, while projects targeting parts of Lycoming, Tioga and Bradford Counties in north central Pennsylvania have moved forward.

PVR Senior Notes Offering

In April 2010, PVR sold \$300.0 million of unsecured senior notes due on April 15, 2018, or the PVR Senior Notes, with an annual interest rate of 8.25% which is payable semi-annually in arrears on April 15 and October 15 of each year. The PVR Senior Notes were sold at par, equating to an effective yield to maturity of approximately 8.25%. The net proceeds from the sale of the PVR Senior Notes of approximately \$292.6 million, after deducting fees and expenses of approximately \$7.4 million, were used to repay borrowings under the PVR Revolver. PVR has a call option on the PVR Senior Notes, which PVR may redeem some or all of the PVR Senior Notes at any time on or after April 15, 2014 at the redemption prices set forth in the Supplemental Indenture governing the PVR Senior Notes and prior to such date at a "make-whole" redemption price. PVR may also redeem up to 35% of the PVR Senior Notes prior to April 15, 2013 with cash proceeds received from certain equity offerings. If PVR sells certain assets and does not reinvest the proceeds or repay senior indebtedness or if PVR experiences a change of control, PVR must offer to repurchase the Senior Notes. The PVR Senior Notes are senior to any subordinated indebtedness, and are effectively subordinated to all of PVR's secured indebtedness including the PVR Revolver to the extent of the collateral securing that indebtedness. The obligations under the PVR Senior Notes are fully and unconditionally guaranteed by PVR's current and future subsidiaries, which are also guarantors under the PVR Revolver.

Liquidity and Capital Resources

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 its 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 flows statements for the periods presented:

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 35,788	\$ 21,721
Adjustments to reconcile net income to net cash provided by operating activities (summarized)	43,880	49,166
Net changes in operating assets and liabilities	10,724	1,648
Net cash provided by operating activities	90,392	72,535
Net cash used in investing activities	(41,927)	(33,548)
Net cash used in financing activities	(44,233)	(40,232)
Net increase in cash and cash equivalents	\$ 4,232	\$ (1,245)

Cash Flows From 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 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.

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.

The overall increase in net cash provided by operating activities in the six months ended June 30, 2010 as compared to the same period in 2009 was driven by an increase in the PVR natural gas midstream segment's gross margin. Higher commodity prices for natural gas as well as NGLs increased PVR's margins even though lower throughput volumes were experienced for the comparative periods.

Cash Flows From 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 six months ended June 30, 2010 and 2009. Net cash used by PVR in investing activities were primarily for capital expenditures. The following table sets forth PVR's capital expenditures programs, by segment, for the periods presented:

	<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Coal and natural resource management		
Acquisitions	\$ 17,864	\$ 1,862
Other property and equipment expenditures	250	47
Total	<u>18,114</u>	<u>1,909</u>
Natural gas midstream		
Expansion capital expenditures	22,027	21,544
Other property and equipment expenditures	5,861	4,636
Total	<u>27,888</u>	<u>26,180</u>
Total capital expenditures	<u>\$ 46,002</u>	<u>\$ 28,089</u>

PVR's capital expenditures for the six months ended June 30, 2010 and 2009 consisted primarily of natural gas midstream expansion capital used to increase its operational footprint in its Panhandle System and Marcellus Shale Systems. The coal and natural resource management segment acquired 10 million tons of coal in northern Appalachia for \$17.7 million.

Cash Flows From Financing Activities

During the six months ended June 30, 2010, PVR incurred \$8.7 million of debt issuance costs related to the issuance of the \$300 million PVR Senior Notes. The borrowings during both the six months ended June 30, 2010 and 2009 were used to finance acquisition and expansion projects.

Certain Non-GAAP Financial Measures

We use non-GAAP measures to evaluate our business and performance. None of these measures should be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP, or as indicators of our operating performance or liquidity.

The following tables present the calculation of distributable cash to PVG and reconciliation of net income attributable to PVG with respect to the periods presented:

Calculation of Non-GAAP "Distributable cash"	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010 (a)	2009	2010 (a)	2009
Distributable cash:				
Cash distributions received from PVR associated with:				
2% general partner interest	\$ 502	\$ 497	\$ 1,000	\$ 994
General partner incentive distribution rights	6,093	6,035	12,139	12,070
PVR common units	9,230	9,206	18,436	18,412
Total cash received from PVR	15,825	15,738	31,575	31,476
Deduct: Net expenses of PVG on a stand-alone basis (b)	(1,154)	(543)	(2,123)	(1,069)
Cash reserve for working capital	568	(347)	1,026	(711)
Distributable cash (c)	\$15,239	\$14,848	\$30,478	\$29,696
Cash distributions to be paid to partners of PVG				
To Penn Virginia Corporation	\$ —	\$ 11,429	\$ 3,443	\$ 22,858
To public unitholders	15,239	3,419	27,035	6,838
Total cash distributions to be paid	\$15,239	\$14,848	\$30,478	\$29,696
Distribution per limited partner unit (paid in subsequent period)	\$ 0.39	\$ 0.38	\$ 0.78	\$ 0.76
Weighted-average units outstanding, basic and diluted	39,075	39,075	39,075	39,075
Reconciliation of GAAP "Net income" to Non-GAAP "Net income as adjusted"				
Net income attributable to PVG	\$11,556	\$ 8,339	\$19,981	\$15,188
Adjustments for derivatives:				
Derivative (gains) losses included in net income	(6,566)	2,951	1,584	10,566
Cash receipts (payments) to settle derivatives for period	(2,412)	1,613	(4,058)	4,449
Impact of adjustments on noncontrolling interests (d)	3,366	(2,206)	1,032	(4,516)
Net income attributable to PVG, as adjusted (e)	\$ 5,944	\$10,697	\$18,539	\$25,687
Net income attributable to PVG, as adjusted, per limited partner unit, basic and diluted	\$ 0.15	\$ 0.27	\$ 0.47	\$ 0.66

- (a) The three months ended June 30, 2010 column represents cash distributions expected to be received from PVR and cash distributions expected to be paid to our unitholders in August 2010.
- (b) Estimated net expenses of PVG, which represent general and administrative expenses, partially offset by interest income.
- (c) Distributable cash represents cash distributions received from PVR, minus our net expenses, minus cash reserve for working capital. Distributable cash is presented because we believe it is a useful adjunct to net income under GAAP. Distributable cash is a significant liquidity metric which is an indicator of our ability to pay quarterly cash distributions to our limited partners. Distributable cash is also the quantitative standard used throughout the investment community with respect to publicly traded partnerships. Distributable cash is not a measure of financial performance under GAAP and should not be considered as an alternative to cash flows from operating, investing or financing activities, as an indicator of cash flows, as a measure of liquidity or as an alternative to net income.
- (d) Noncontrolling interests in net income adjusts for the effects of incentive distribution rights and reflects the noncontrolling interests percentage of net income. The ratio of net income and net income attributable to noncontrolling interests calculated on a GAAP basis was used to estimate the impact of adjustments on noncontrolling interests. A pro forma calculation of net income attributable to noncontrolling interests was not performed.

- (e) Net income as adjusted represents net income adjusted to exclude the effects of non-cash changes in the fair value of derivatives, and adjustments for an estimate of the related noncontrolling interests. We believe this presentation is commonly used by investors and professional research analysts in the valuation, comparison, rating and investment recommendations of companies in the natural gas midstream industry. We use this information for comparative purposes within the industry. Net income as adjusted is not a measure of financial performance under GAAP and should not be considered as a measure of liquidity or as an alternative to net income.

Sources of Liquidity

Long-Term Debt

As of June 30, 2010, we had no outstanding borrowings other than the borrowings of PVR discussed below, which are included in our Consolidated Financial Statements.

PVR Revolver. As of June 30, 2010, net of outstanding borrowings of \$346.5 million and letters of credit of \$1.6 million, PVR had remaining borrowing capacity of \$451.9 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. 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 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. The weighted average interest rate on borrowings outstanding under the PVR Revolver during the six months ended June 30, 2010 was approximately 2.3%. PVR does not have a public rating for the PVR Revolver. As of June 30, 2010, PVR was in compliance with all of its covenants under the PVR Revolver.

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. The following table sets forth the PVR Interest Rate Swap positions as of June 30, 2010:

<u>Term</u>	<u>Notional Amounts</u> (in millions)	<u>Swap Interest Rates (1)</u>	
		<u>Pay</u>	<u>Receive</u>
March 2010 – December 2011	\$ 250.0	3.37%	LIBOR
December 2011 – December 2012	\$ 100.0	2.09%	LIBOR

(1) References to LIBOR represent the 3-month rate.

The PVR Interest Rate Swaps extend one year past the maturity of the current PVR Revolver. After considering the applicable margin of 2.00% in effect as of March 31, 2010 the total interest rate on the \$250 million portion of the PVR Revolver borrowings covered by the PVR Interest Rate Swaps was 5.37% as of June 30, 2010.

PVR Senior Notes. In April 2010, PVR sold \$300.0 million of PVR Senior Notes due on April 15, 2018 with an annual interest rate of 8.25%, which is payable semi-annually in arrears on April 15 and October 15 of each year. The PVR Senior Notes were sold at par, equating to an effective yield to maturity of approximately 8.25%. The net proceeds from the sale of the PVR Senior Notes of approximately \$292.6 million, after deducting fees and expenses of approximately \$7.4 million, were used to repay borrowings under the PVR Revolver. PVR has a call option on the PVR Senior Notes, which PVR may redeem some or all of the PVR Senior Notes at any time on or after April 15, 2014 at the redemption prices set forth in the Supplemental Indenture governing the PVR Senior Notes and prior

to such date at a “make-whole” redemption price. PVR may also redeem up to 35% of the PVR Senior Notes prior to April 15, 2013 with cash proceeds received from certain equity offerings. If PVR sells certain assets and does not reinvest the proceeds or repay senior indebtedness or if PVR experiences a change of control, PVR must offer to repurchase the Senior Notes. The PVR Senior Notes are senior to any subordinated indebtedness, and are effectively subordinated to all of PVR’s secured indebtedness including the PVR Revolver to the extent of the collateral securing that indebtedness. The obligations under the PVR Senior Notes are fully and unconditionally guaranteed by PVR’s current and future subsidiaries, which are also guarantors 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 its remaining borrowing capacity under the PVR Revolver of approximately \$451.9 million will be more than sufficient to meet its anticipated 2010 capital needs and commitments. PVR’s short-term cash requirements for operating expenses and quarterly distributions to us, as the owner of PVR’s general partner, and unitholders are expected to be funded through operating cash flows. In 2010, PVR anticipates making capital expenditures, excluding acquisitions, of approximately \$142.0 million, including anticipated maintenance capital of \$17.0 million to \$22.0 million. The majority of the 2010 capital expenditures are expected to be incurred in the PVR natural gas midstream segment. PVR intends to fund these capital expenditures with a combination of operating cash flows and borrowings under the PVR Revolver. Long-term cash requirements for acquisitions and other capital expenditures are expected to be funded by operating cash flows, 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.

Results of Operations

Consolidated Review

The following table presents summary consolidated results for the periods presented:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues	\$ 189,432	\$ 149,419	\$ 395,910	\$ 306,178
Expenses	165,722	128,588	345,442	263,957
Operating income	23,710	20,831	50,468	42,221
Other income (expense)	(1,604)	(8,052)	(14,680)	(20,500)
Net income	\$ 22,106	\$ 12,779	\$ 35,788	\$ 21,721
Net income attributable to noncontrolling interests	(10,550)	(4,440)	(15,807)	(6,533)
Net income attributable to Penn Virginia GP Holdings, L.P.	\$ 11,556	\$ 8,339	\$ 19,981	\$ 15,188

The following table presents a summary of certain financial information relating to our segments for the periods presented:

	PVR Coal and Natural Resource Management	PVR Natural Gas Midstream	Corporate and Other	Consolidated
For the Six Months Ended June 30, 2010:				
Revenues	\$ 74,142	\$ 321,768	\$ —	\$ 395,910
Cost of gas purchased	—	(263,454)	—	(263,454)
Operating costs and expenses	(14,295)	(29,458)	(2,154)	(45,907)
Depreciation, depletion and amortization	(14,705)	(21,376)	—	(36,081)
Operating income (loss)	<u>\$ 45,142</u>	<u>\$ 7,480</u>	<u>\$ (2,154)</u>	<u>\$ 50,468</u>
For the Six Months Ended June 30, 2009:				
Revenues	\$ 73,396	\$ 232,782	\$ —	\$ 306,178
Cost of gas purchased	—	(192,774)	—	(192,774)
Operating costs and expenses	(12,531)	(23,433)	(1,099)	(37,063)
Depreciation, depletion and amortization	(15,558)	(18,562)	—	(34,120)
Operating income (loss)	<u>\$ 45,307</u>	<u>\$ (1,987)</u>	<u>\$ (1,099)</u>	<u>\$ 42,221</u>

PVR Coal and Natural Resource Management Segment

Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009

The following table sets forth a summary of certain financial and other data for the PVR coal and natural resource management segment and the percentage change for the periods presented:

	Three Months Ended June 30,		Favorable (Unfavorable)	% Change
	2010	2009		
Financial Highlights				
Revenues				
Coal royalties	\$34,879	\$29,997	\$ 4,882	16%
Coal services	2,028	1,745	283	16%
Timber	1,746	1,456	290	20%
Oil and gas royalty	625	545	80	15%
Other	1,304	1,401	(97)	(7)%
Total revenues	<u>40,582</u>	<u>35,144</u>	<u>5,438</u>	15%
Expenses				
Coal royalties	1,630	1,569	(61)	(4)%
Other operating	951	919	(32)	(3)%
General and administrative	5,841	4,159	(1,682)	(40)%
Depreciation, depletion and amortization	7,379	8,164	785	10%
Total expenses	<u>15,801</u>	<u>14,811</u>	<u>(990)</u>	(7)%
Operating income	<u>\$24,781</u>	<u>\$20,333</u>	<u>\$ 4,448</u>	22%
Other data				
Coal royalty tons by region				
Central Appalachia	5,012	4,650	362	8%
Northern Appalachia	1,069	1,060	9	1%
Illinois Basin	1,107	1,145	(38)	(3)%
San Juan Basin	1,684	1,884	(200)	(11)%
Total	<u>8,872</u>	<u>8,739</u>	<u>133</u>	2%
Coal royalties revenues by region				
Central Appalachia	\$26,194	\$21,192	\$ 5,002	24%
Northern Appalachia	2,010	1,949	61	3%
Illinois Basin	2,987	2,862	125	4%
San Juan Basin	3,688	3,994	(306)	(8)%
	<u>\$34,879</u>	<u>\$29,997</u>	<u>\$ 4,882</u>	16%
Coal royalties per ton by region (\$/ton)				
Central Appalachia	\$ 5.23	\$ 4.56	\$ 0.67	15%
Northern Appalachia	1.88	1.84	0.04	2%
Illinois Basin	2.70	2.50	0.20	8%
San Juan Basin	2.19	2.12	0.07	3%
	<u>\$ 3.93</u>	<u>\$ 3.43</u>	<u>\$ 0.50</u>	15%

Revenues

Coal royalties revenues increased due to higher realized coal royalties per ton. Metallurgical coal is in high demand, driving up the price realized for metallurgical coal sales by our lessees in Central Appalachia.

Coal production increased slightly in the current period. The increase in the Central Appalachia was driven by the metallurgical coal market and lessees trying to meet the demand. Offsetting this increase was decrease in San Juan Basin production. This decrease was attributable to equipment and developmental delays.

Expenses

General and administrative expense increased due to the accelerated vesting of equity compensation. Penn Virginia divested its interest in PVG over the past nine months and no longer owns any limited or general partner interests in PVR. Because the divestiture was considered a change of control under the LTIP, all unvested restricted and phantom units granted to employees performing services for the benefit of PVR were considered vested on the date the last PVG units were sold, June 7, 2010.

DD&A expenses decreased for the comparative periods due to lower levels of timber harvesting.

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

The following table sets forth a summary of certain financial and other data for the PVR coal and natural resource management segment and the percentage change for the periods presented:

	<u>Six Months Ended</u> <u>June 30,</u>		<u>Favorable</u> <u>(Unfavorable)</u>	<u>%</u> <u>Change</u>
	<u>2010</u>	<u>2009</u>		
Financial Highlights				
Revenues				
Coal royalties	\$63,105	\$60,627	\$ 2,478	4%
Coal services	4,001	3,633	368	10%
Timber	3,051	2,773	278	10%
Oil and gas royalty	1,369	1,248	121	10%
Other	2,616	5,115	(2,499)	(49)%
Total revenues	<u>74,142</u>	<u>73,396</u>	<u>746</u>	1%
Expenses				
Coal royalties	3,086	2,793	(293)	(10)%
Other operating	1,676	1,983	307	15%
General and administrative	9,533	7,755	(1,778)	(23)%
Depreciation, depletion and amortization	14,705	15,558	853	5%
Total expenses	<u>29,000</u>	<u>28,089</u>	<u>(911)</u>	(3)%
Operating income	<u>\$45,142</u>	<u>\$45,307</u>	<u>\$ (165)</u>	(0)%
Other data				
Coal royalty tons by region				
Central Appalachia	8,941	9,308	(367)	(4)%
Northern Appalachia	2,107	2,117	(10)	(0)%
Illinois Basin	2,189	2,406	(217)	(9)%
San Juan Basin	3,878	3,656	222	6%
Total	<u>17,115</u>	<u>17,487</u>	<u>(372)</u>	(2)%
Coal royalties revenues by region				
Central Appalachia	\$44,724	\$42,875	\$ 1,849	4%
Northern Appalachia	3,960	3,900	60	2%
Illinois Basin	5,929	6,103	(174)	(3)%
San Juan Basin	8,492	7,749	743	10%
	<u>\$63,105</u>	<u>\$60,627</u>	<u>\$ 2,478</u>	4%
Coal royalties per ton by region (\$/ton)				
Central Appalachia	\$ 5.00	\$ 4.61	\$ 0.39	8%
Northern Appalachia	1.88	1.84	0.04	2%
Illinois Basin	2.71	2.54	0.17	7%
San Juan Basin	2.19	2.12	0.07	3%
	<u>\$ 3.69</u>	<u>\$ 3.47</u>	<u>\$ 0.22</u>	6%

Revenues

Coal royalties revenues increased due to higher realized coal royalties per ton. Metallurgical coal is in high demand, driving up the price realized for metallurgical coal sales by our lessees in Central Appalachia.

Coal production slightly decreased due to lower longwall mining operations in the Central Appalachian region as operations moved onto adjacent reserves and the closure of a mine in the Illinois Basin due to adverse geological conditions. These production decreases were partially offset by production increases in the San Juan Basin resulting from the start up of a mine during 2009 and improved mining and market conditions.

Other revenues decreased due to forfeited minimum rentals recognized in the first quarter of 2009 for a property that was not mined in the statutory time period.

Expenses

Coal royalties expenses increased due to an increase in mining activity by our lessees from subleased properties in the Central Appalachian region where our coal royalties expense is primarily incurred. Mining activity on our subleased property fluctuates between periods due to the proximity of our property boundaries and those of other mineral owners.

Operating expenses decreased due to the timing of core hole drilling and other geological studies of coal seams and reserves.

General and administrative expense increased due to the accelerated vesting of equity compensation, noted earlier.

DD&A expenses decreased for the comparative periods due to lower levels of timber harvesting.

PVR Natural Gas Midstream Segment

Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009

The following table sets forth a summary of certain financial and other data for the PVR natural gas midstream segment and the percentage change for the periods presented:

	<u>Three Months Ended June 30,</u>		<u>Favorable</u>	<u>% Change</u>
	<u>2010</u>	<u>2009</u>	<u>(Unfavorable)</u>	
Financial Highlights				
Revenues				
Residue gas	\$ 77,333	\$ 67,170	\$ 10,163	15%
Natural gas liquids	59,177	38,917	20,260	52%
Condensate	6,313	3,945	2,368	60%
Gathering, processing and transportation fees	3,723	3,028	695	23%
Total natural gas midstream revenues (1)	146,546	113,060	33,486	30%
Equity earnings in equity investment	1,597	629	968	154%
Producer services	707	586	121	21%
Total revenues	148,850	114,275	34,575	30%
Expenses				
Cost of gas purchased (1)	121,659	92,154	(29,505)	(32)%
Operating	7,680	7,227	(453)	(6)%
General and administrative	8,532	4,381	(4,151)	(95)%
Depreciation and amortization	10,884	9,453	(1,431)	(15)%
Total operating expenses	148,755	113,215	(35,540)	(31)%
Operating income	<u>\$ 95</u>	<u>\$ 1,060</u>	<u>\$ (965)</u>	<u>(91)%</u>
Operating Statistics				
System throughput volumes (MMcfd)	29,162	31,342	(2,180)	(7)%
Daily throughput volumes (MMcfd)	320	344	(24)	(7)%
Gross margin	\$ 24,887	\$ 20,906	\$ 3,981	19%
Cash impact of derivatives	(421)	3,377	(3,798)	(112)%
Gross margin, adjusted for impact of derivatives	<u>\$ 24,466</u>	<u>\$ 24,283</u>	<u>\$ 183</u>	1%
Gross margin (\$/Mcf)	\$ 0.85	\$ 0.67	\$ 0.18	27%
Cash impact of derivatives (\$/Mcf)	(0.01)	0.10	(0.11)	(110)%
Gross margin, adjusted for impact of derivatives (\$/Mcf)	<u>\$ 0.84</u>	<u>\$ 0.77</u>	<u>\$ 0.07</u>	9%

- (1) For the period of April 1 through June 7, 2010 and for the three months ended June 30, 2009, we recorded \$9.6 million and \$20.1 million of natural gas midstream revenues and \$9.6 million and \$20.1 million for the cost of gas purchased related to the purchase of natural gas from Penn Virginia Oil & Gas, L.P (a subsidiary of Penn Virginia and considered a related party up to June 7, 2010) and the subsequent sale of that gas to third parties. We take title to the gas prior to transporting it to third parties. These transactions do not impact the gross margin.

Gross Margin

Gross margin is the difference between our natural gas midstream revenues and our cost of gas purchased. Natural gas midstream revenues included residue gas sold from processing plants after NGLs were 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 our gas processing plants. Cost of gas purchased consisted of amounts payable to third-party producers for natural gas purchased under percentage-of-proceeds and gas purchase/keep-whole contracts.

The gross margin increase was a result of higher commodity pricing and higher fractionation, or frac, spreads offset by decreased system throughput volumes. Frac spreads are the difference between the price of NGLs sold and the cost of natural gas purchased on a per MMBtu basis. Not all of our system throughput volumes are processed through gas processing plants as some of our systems are only gathering facilities. Processed volumes at our Panhandle facilities increased due to the June 2009 acquisition of the Sweetwater facilities in western Oklahoma, which allows us to process gas that went unprocessed or was processed by third-parties in the past. Processed volumes at our Crossroads facility increased due to the addition of new producer gas.

We generated a majority of our 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 our risk management strategy, we use derivative financial instruments to economically hedge NGLs sold and natural gas purchased. On a per Mcf basis, adjusted for the impact of our commodity derivative instruments, our gross margin increased by \$0.07, or nine percent as compared to the three months ended June 30, 2009. This favorable increase was moderately impacted by commodity derivatives as a result of higher commodity prices during the second quarter of 2010.

Revenues Other Than Gross Margin

Equity earnings in equity investment have grown due to mainline volume increases in the Powder River Basin. Producer services revenues increased due to the relative increase in commodity prices.

Expenses

Operating expenses increased due to prior and current years' expansion projects and acquisitions. The related costs of these facilities include increased costs for compressor rentals and utilities.

General and administrative expense increased due to the accelerated vesting of equity compensation, noted earlier.

Depreciation and amortization expenses increased primarily due to acquisitions and capital expansions on the Panhandle System, including the Sweetwater plant acquisition and Spearman plant construction.

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

The following table sets forth a summary of certain financial and other data for the PVR natural gas midstream segment and the percentage change for the periods presented:

	<u>Six Months Ended June 30,</u>		<u>Favorable</u>	
	<u>2010</u>	<u>2009</u>	<u>(Unfavorable)</u>	<u>% Change</u>
Financial Highlights				
Revenues				
Residue gas	\$ 172,229	\$ 148,364	\$ 23,865	16%
Natural gas liquids	125,820	69,523	56,297	81%
Condensate	13,049	6,848	6,201	91%
Gathering, processing and transportation fees	6,057	5,704	353	6%
Total natural gas midstream revenues (1)	<u>317,155</u>	<u>230,439</u>	<u>86,716</u>	<u>38%</u>
Equity earnings in equity investment	3,280	1,748	1,532	88%
Producer services	1,333	595	738	124%
Total revenues	<u>321,768</u>	<u>232,782</u>	<u>88,986</u>	<u>38%</u>
Expenses				
Cost of gas purchased (1)	263,454	192,774	(70,680)	(37)%
Operating	15,807	14,684	(1,123)	(8)%
General and administrative	13,651	8,749	(4,902)	(56)%
Depreciation and amortization	21,376	18,562	(2,814)	(15)%
Total operating expenses	<u>314,288</u>	<u>234,769</u>	<u>(79,519)</u>	<u>(34)%</u>
Operating income	<u>\$ 7,480</u>	<u>\$ (1,987)</u>	<u>\$ 9,467</u>	<u>476%</u>
Operating Statistics				
System throughput volumes (MMcf)	56,887	63,622	(6,735)	(11)%
Daily throughput volumes (MMcfd)	314	352	(38)	(11)%
Gross margin	\$ 53,701	\$ 37,665	\$ 16,036	43%
Cash impact of derivatives	359	7,169	(6,810)	(95)%
Gross margin, adjusted for impact of derivatives	<u>\$ 54,060</u>	<u>\$ 44,834</u>	<u>\$ 9,226</u>	<u>21%</u>
Gross margin (\$/Mcf)	\$ 0.94	\$ 0.59	\$ 0.35	59%
Cash impact of derivatives (\$/Mcf)	0.01	0.11	(0.10)	(91)%
Gross margin, adjusted for impact of derivatives (\$/Mcf)	<u>\$ 0.95</u>	<u>\$ 0.70</u>	<u>\$ 0.25</u>	<u>36%</u>

- (1) For the period of January 1 through June 7, 2010 and for the six months ended June 30, 2009, we recorded \$27.8 million and \$41.2 million of natural gas midstream revenues and \$27.8 million and \$41.2 million for the cost of gas purchased related to the purchase of natural gas from Penn Virginia Oil & Gas, L.P (a subsidiary of Penn Virginia and considered a related party up to June 7, 2010) and the subsequent sale of that gas to third parties. We take title to the gas prior to transporting it to third parties. These transactions do not impact the gross margin.

Gross Margin

The gross margin increase was a result of higher commodity pricing and higher frac spreads offset by decreased system throughput volumes. Frac spreads are the difference between the price of NGLs sold and the cost of natural gas purchased on a per MMBtu basis. Not all of our system throughput volumes are processed through gas processing plants as some of our systems are only gathering facilities. Processed volumes at our Panhandle facilities increased due to the June 2009 acquisition of the Sweetwater facilities in western Oklahoma, which allows us to process gas that went unprocessed or was processed by third-parties in the past. Processed volumes at our Crossroads facility increased due to the addition of new producer gas.

We generated a majority of our 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 our risk management strategy, we use derivative financial instruments to economically hedge NGLs sold and natural gas purchased. On a per Mcf basis, adjusted for the impact of our commodity derivative instruments, our gross margin increased by \$0.25, or 36% as compared to the three months ended June 30, 2009. This favorable increase was moderately impacted by commodity derivatives as a result of higher commodity prices during the second quarter of 2010.

Revenues Other Than Gross Margin

Equity earnings in equity investment have grown due to mainline volume increases in the Powder River Basin. Producer services revenues increased due to the relative increase in commodity prices.

Expenses

Operating expenses increased due to prior and current years' expansion projects and acquisitions. The related costs of these facilities include increased costs for compressor rentals and utilities.

General and administrative expense increased due to the accelerated vesting of equity compensation, noted earlier. In addition, general and administrative expenses increased due to increased staffing and related benefit costs.

Depreciation and amortization expenses increased primarily due to acquisitions and capital expansions on the Panhandle System, including the Sweetwater plant acquisition and Spearman plant construction.

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 periods presented:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Operating income	\$ 23,710	\$ 20,831	\$ 50,468	\$ 42,221
Other income (expense)				
Interest expense	(8,894)	(6,365)	(14,729)	(11,981)
Other	216	347	543	676
Derivatives	7,074	(2,034)	(494)	(9,195)
Net income	<u>\$ 22,106</u>	<u>\$ 12,779</u>	<u>\$ 35,788</u>	<u>\$ 21,721</u>

Interest Expense. Interest expense is comprised of the following for the periods presented:

<u>Source</u>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest on Revolver	\$ 2,376	\$ 4,227	\$ 6,245	\$ 8,504
Interest on Senior Notes	4,400	—	4,400	—
Debt issuance costs and other	1,610	1,369	2,994	1,960
Interest rate swaps	508	918	1,090	1,743
Capitalized interest	—	(149)	—	(226)
Total interest expense	<u>\$ 8,894</u>	<u>\$ 6,365</u>	<u>\$ 14,729</u>	<u>\$ 11,981</u>

Interest expense for the three and six months ended June 30, 2010 has increased compared to the same periods in 2009. These increases are due to the issuance of the PVR Senior Notes bearing an interest rate of 8.25% offset by lower levels of PVR Revolver debt bearing interest at levels of 2.0% to 3.0% over the comparable period. Debt issuance costs have also increase related to Revolver changes in March 2009 and the issuance of the PVR Senior Notes in April 2010.

Derivatives. PVR's 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, as well as the PVR Interest Rate Swaps.

Commodity markets are volatile, and as a result, PVR's hedging activity results can vary significantly. PVR's results of operations are affected by the volatility of changes in fair value, which fluctuate with changes in NGL, crude oil and natural gas prices. PVR determines the fair values of its commodity derivative agreements based on discounted cash flows based on quoted forward prices for the respective commodities. The discounted cash flows utilize 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.

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 caption on our Consolidated Statements of Income.

PVR's derivative activity for the periods presented is summarized below:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest Rate Swap unrealized derivative loss	\$ (50)	\$ 3,574	\$ (754)	\$ 3,416
Interest Rate Swap realized derivative loss	(1,991)	(1,764)	(4,417)	(2,720)
Natural gas midstream commodity unrealized derivative loss	9,536	(7,221)	4,318	(17,060)
Natural gas midstream commodity realized derivative gain	(421)	3,377	359	7,169
Total derivative loss	\$ 7,074	\$ (2,034)	\$ (494)	\$ (9,195)

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 June 30, 2010 and December 31, 2009, PVR's environmental liabilities were \$0.9 million and \$1.0 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.

Critical Accounting 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 estimates which involve the judgment of our management were fully disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009 and remained unchanged as of June 30, 2010.

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.

PVR has completed a number of acquisitions in recent years. In conjunction with PVR's accounting for these acquisitions, it was necessary for PVR to estimate the values of the assets acquired and liabilities assumed, which involved the use of various assumptions. The most significant assumptions, and the ones requiring the most judgment, involve the estimated fair values of property, plant and equipment, and the resulting amount of goodwill, if any. Changes in operations, further decreases in commodity prices, changes in the business environment or further deteriorations of market conditions could substantially alter management's assumptions and could result in lower estimates of values of acquired assets or of future cash flows. If these events occur, it is reasonably possible that we could record a significant impairment loss on our Consolidated Statements of Income.

Price Risk

PVR's price risk management program permits the utilization of derivative financial instruments (such as futures, forwards, option contracts and swaps) 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 June 30, 2010, PVR reported a net commodity asset liability related to the PVR natural gas midstream segment of \$1.1 million that is with six counterparties and is substantially concentrated with four of those counterparties. This concentration may impact PVR's 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. No significant uncertainties related to the collectability of amounts owed to PVR exist with regard to these counterparties.

For the three and six months ended June 30, 2010, PVR reported a net derivative gain of \$7.1 million and a net derivative loss of \$0.5 million. Because PVR no longer uses cash flow hedge accounting for its commodity derivatives, we recognize changes in fair value in earnings currently in the derivatives caption on the Consolidated Statements of Income. PVR has experienced and could continue to experience significant changes in the estimate of derivative gains or losses recognized due to fluctuations in the value of its commodity derivative contracts. PVR's 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 to the Consolidated Financial Statements for a further description of our derivatives program.

The following table lists PVR's commodity derivative agreements and their fair values as of June 30, 2010:

	Average Volume Per Day	Swap Price	Weighted Average Price		Fair Value at June 30, 2010 (in thousands)
			Put	Call	
Crude oil collar	(barrels)		(per barrel)		
Third quarter 2010 through fourth quarter 2010	750		\$ 70.00	\$ 81.25	\$ (89)
Crude oil collar	(barrels)		(per barrel)		
Third quarter 2010 through fourth quarter 2010	1,000		\$ 68.00	\$ 80.00	\$ (289)
Natural gas purchase swap	(MMBtu)	(MMBtu)			
Third quarter 2010 through fourth quarter 2010	7,100	\$ 5.885			\$ (1,378)
NGL—natural gasoline collar	(gallons)		(per gallon)		
Third quarter 2010 through fourth quarter 2010	42,000		\$ 1.55	\$ 2.03	\$ 435
NGL—natural gasoline collar	(gallons)		(per gallon)		
First quarter 2011 through fourth quarter 2011	95,000		\$ 1.57	\$ 1.94	\$ 2,374
Crude oil collar	(barrels)		(per barrel)		
First quarter 2011 through fourth quarter 2011	400		\$ 75.00	\$ 98.50	\$ 629
Natural gas purchase swap	(MMBtu)	(MMBtu)			
First quarter 2011 through fourth quarter 2011	6,500	\$ 5.796			\$ (1,053)
Settlements to be received in subsequent period					<u>\$ 453</u>
					<u>\$ 1,082</u>

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 \$1.5 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 \$1.3 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 \$3.4 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 \$3.4 million. PVR estimates that a \$0.10 per gallon increase in the natural gasoline (anNGL) price would decrease the fair value of PVR's natural gasoline collar by \$2.7 million. PVR estimates that a \$0.10 per gallon decrease in the natural gasoline price would increase the fair value of PVR's natural gasoline collar by \$2.6 million.

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 2010 would increase or decrease by \$0.9 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 2010 would increase or decrease by \$3.1 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 June 30, 2010, PVR had \$346.5 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. From March 2010 to December 2011, the notional amounts of the PVR Interest Rate Swaps total \$250.0 million, or 72% of PVR's outstanding indebtedness under the PVR Revolver as of June 30, 2010, 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 29% of PVR's outstanding indebtedness under the PVR Revolver as of June 30, 2010, 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 June 30, 2010 would cost PVR approximately \$1.0 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 to the Consolidated 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 six months ended June 30, 2010, two of PVR's natural gas midstream segment customers accounted for \$55.1 million and \$41.0 million, or 14% and 10%, of our total consolidated revenues. At June 30, 2010, 21% 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 June 30, 2010, no receivables were collateralized, and PVR had a \$0.2 million allowance for doubtful accounts, of which the majority 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 June 30, 2010. 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 June 30, 2010, 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

The following risk factors should be read in conjunction with the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2009. Risk factors listed below are updates or additional risk factors to consider.

Concerns about the environmental impacts of fossil-fuel emissions, including perceived impacts on global climate change, are resulting in increased regulation of emissions of greenhouse gases in many jurisdictions and increased interest in and the likelihood of further regulation, which could significantly affect PVR's coal royalties revenues.

Global climate change continues to attract considerable public and scientific attention. Several widely publicized scientific reports have engendered widespread concern about the impacts of human activity, especially fossil fuel combustion, on global climate change. Legislative attention in the United States is being paid to global climate change and to reducing greenhouse gas emissions, particularly from coal combustion by power plants. Such legislation was introduced in Congress in the last several years to reduce greenhouse gas emissions in the United States and further proposals or amendments are likely to be offered in the future. In anticipation of the endangerment finding of the Environmental Protection Agency, or the EPA, regarding greenhouse gas emissions (which was finalized in December 2009), the agency proposed two sets of rules regarding possible future regulation of greenhouse gas emissions under the Clean Air Act. Enactment of laws, passage of regulations regarding greenhouse gas emissions by the United States or some of its states, or other actions to limit carbon dioxide emissions could result in electric generators switching from coal to other fuel sources.

On June 21, 2010, EPA released a proposed rule that would classify byproducts of coal combustion ("CCB") either as hazardous wastes under subtitle C of RCRA, or as solid wastes under Subtitle D. If CCB were classified as a hazardous waste, regulations may, among other requirements, restrict ash disposal, regulate coal ash storage facilities more stringently, require groundwater monitoring and mandate financial assurance.

More recently, on June 3, 2010, EPA issued a final rule setting forth a more stringent primary National Ambient Air Quality Standard (NAAQS) applicable to air emissions of sulfur dioxide. Coal-fired power plants, which are the largest end users of coal mined from PVR's reserves, may be required to install additional emissions control equipment or take other steps to lower sulfur emissions as a result. Individually and collectively, these developments could add additional costs of the use of coals as a fuel, adversely affect the use of and demand for fossil fuels, particularly coal, and may encourage power plant operators to switch to a different fuel.

Delays in PVR's lessees obtaining mining permits and approvals, or the inability to obtain required permits and approvals, could have an adverse effect on PVR's coal royalties revenues.

Mine operators, including PVR's lessees, must obtain numerous permits and approvals that impose strict conditions and obligations relating to various environmental and safety matters in connection with coal mining. The permitting rules are complex and can change over time. For example, on March 26, 2010, the EPA announced a proposal to exercise its Section 404(c) "veto" power with regard to the Spruce No. 1 Surface Mine in West Virginia, which was previously permitted in 2007. This would be the first time the EPA's Section 404(c) "veto" power would be applied to a previously permitted project. Moreover, on April 1, 2010, the EPA issued interim final guidance substantially revising the environmental review of Section 402 and Section 404 permits by state and federal agencies. As an example of the significance of this guidance, the EPA also published on April 1, 2010 a proposed determination to prohibit, restrict or deny a permit issued under Section 404 to Mingo Logan Coal Company for the discharge of dredged fill in connection with the construction of various fills and sedimentation ponds. Of course, this guidance has just been issued and it remains to be seen how it will be applied by the EPA and whether it will be subject to judicial challenge by affected states or private parties. These initiatives have extended the time required to obtain permits for coal mining and PVR anticipates further delays in obtaining permits and that the costs associated with obtaining and complying with those permits will increase substantially. It is possible that some projects may not be able to obtain these permits because of the manner in which these rules are being interpreted and applied. Limitations on PVR's lessees' ability to conduct their mining operations due to the inability to obtain or renew necessary permits, or due to uncertainty, litigation or delays associated with the eventual issuance of these permits, could have an adverse effect on PVR's coal royalties revenues.

Recently, on June 17, 2010, the U.S. Army Corps announced the suspension of all NWP 21 permits in six Appalachian region states until the Corps takes further action on NWP 21, or until NWP 21 expires on March 18, 2012. All proposed surface coal mining projects in these states that involve discharges of dredged or fill material into waters of the United States will have to obtain individual permits from the Corps. The elimination of this method for obtaining permits may add to the costs and delays in obtaining individual permits for coal mining operations.

PVR's lessees' mining operations are subject to extensive and costly laws and regulations, which could increase operating costs and limit PVR's lessees' ability to produce coal, which could have an adverse effect on PVR's coal royalties revenues.

PVR's lessees are subject to numerous and detailed federal, state and local laws and regulations affecting coal mining operations, including laws and regulations pertaining to employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. Numerous governmental permits and approvals are required for mining operations. PVR's lessees are required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment. The costs, liabilities and requirements associated with these regulations may be significant and time-consuming and may delay commencement or continuation of exploration or production operations. Recent mining accidents in West Virginia and Kentucky have received national attention and instigated responses at the state and national level that are likely to result in increased scrutiny of current safety practices and procedures at all mining operations, particularly underground mining operations. Moreover, workplace accidents, such as the April 5, 2010, Upper Big Branch Mine, West Virginia incident, may result in more stringent enforcement as well as the development of new laws and regulations. The possibility exists that new laws or regulations (or judicial interpretations of existing laws and regulations) may be adopted in the future that could materially affect PVR's lessees' mining operations, either through direct impacts such as new requirements impacting PVR's lessees' existing mining operations, or indirect impacts such as new laws and regulations that discourage or limit coal consumers' use of coal. Any of these direct or indirect impacts could have an adverse effect on PVR's coal royalties revenues.

Because of extensive and comprehensive regulatory requirements, violations during mining operations are not unusual in the industry and, notwithstanding compliance efforts, PVR does not believe violations by its lessees can be eliminated completely. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens and, to a lesser extent, the issuance of injunctions to limit or cease operations. PVR's lessees may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from their operations. If PVR's lessees are required to pay these costs and liabilities and if their financial viability is affected by doing so, then their mining operations and, as a result, PVR's coal royalties revenues, could be adversely affected.

On June 28, 2010, the EPA issued final regulations to require owners and operators of certain underground coal mines with annual greenhouse gas emissions in excess of 25,000 tons of carbon dioxide per year to monitor and report greenhouse gas emissions. Subject coal mines will be required to begin monitoring as of January 1, 2011, and report emissions of greenhouse gases by March of the following year. The regulations do not require that underground coal mines install and implement controls to restrict greenhouse gas emissions, however, the costs of complying with these regulations may be material and could reduce royalties from PVR's lessees.

Expanding the PVR natural gas midstream business by constructing new gathering systems, pipelines and processing facilities subjects PVR to construction risks.

One of the ways PVR may grow the PVR natural gas midstream business is through the construction of additions to existing gathering, compression and processing systems. The construction of a new gathering system or pipeline, the expansion of an existing pipeline through the addition of new pipe or compression and the construction of new processing facilities involve numerous regulatory, environmental, political and legal uncertainties beyond PVR's control and require the expenditure of significant amounts of capital. PVR's access to such capital is currently adversely impacted by the state of the global economy, including financial and credit markets. If PVR does undertake these projects, they may not be completed on schedule, or at all, or at the anticipated cost. Moreover, PVR's revenues may not increase immediately upon the expenditure of funds on a particular project. For example, the construction of gathering facilities requires the expenditure of significant amounts of capital, which may exceed PVR's estimates. Generally, PVR may have only limited natural gas supplies committed to these facilities prior to their construction. Moreover, PVR may construct facilities to capture anticipated future growth in production in a region in which anticipated production growth does not materialize. As a result, there is the risk that new facilities, including the facilities PVR is constructing in the Marcellus Shale formation in north central Pennsylvania under PVR's contract with Range Resources Corporation, or Range, may not be able to attract enough natural gas to achieve its expected investment return, which could have a material adverse effect on PVR's business, results of operations or financial condition.

Federal and/or state legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays in the exploitation of the Marcellus Shale formation, which may adversely affect the supply of natural gas to our planned Marcellus Shale system.

The United States Congress is currently considering legislation to amend the Safe Drinking Water Act to eliminate an existing exemption for hydraulic fracturing activities. Similar legislation is under consideration in various states, including New York, and state environmental agencies may impose new requirements on these practices under existing laws. Hydraulic fracturing involves the injection of water, sand and additives under pressure into rock formation to stimulate natural gas production. Range and other producers who are active in the Marcellus Shale formation use hydraulic fracturing to produce commercial quantities of natural gas and oil from shale formations such as the Marcellus Shale. Depending on the legislation that may ultimately be enacted or the regulations that may be adopted at the federal and/or state levels, exploration and production activities that entail hydraulic fracturing could be subject to additional regulation and permitting requirements, which could include public review and possibly even rights to challenge permitting. Individually or collectively, such new legislation or regulation could lead to operational delays or increased operating costs and could result in additional burdens that could increase the costs and delay the development of unconventional gas resources from shale formations which are not commercial without the use of hydraulic fracturing. In this case, the ability of such producers to supply our planned Marcellus Shale system with natural gas may be diminished, which could, in turn, adversely affect our revenues.

Legislation has been proposed that could cause allocations of income on our common units to be recharacterized as, and dispositions of our common units to give rise to, ordinary taxable income.

The U.S. House of Representatives has passed legislation that would cause income earned with respect to certain types of partnership interests to be subject to federal income tax as ordinary income (and potentially subject to self-employment taxes to individual service providers). Because of the nature of our ownership interests in Penn Virginia Resource Partners, L.P., the proposed legislation would likely apply with respect to certain allocations of income on, and may apply to dispositions of, our common units and would likely result in our unitholders being liable for increased taxes. Under a version of this legislation that has been proposed by the Senate, however, an exception likely would apply with respect to dispositions of our common units. Under this exception, most dispositions of our common units by persons who perform no services for us would be exempt from the legislation. We are unable to predict whether any of these changes or the exception for dispositions will ultimately be enacted or apply to our common unitholders. Any such changes could negatively impact the value of an investment in our common units.

Beginning in 2013, recently enacted legislation will result in an additional 3.8% tax on income earned by common unitholders with respect to their investments in us.

The recently enacted Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Affordability Reconciliation Act of 2010, is scheduled to impose a 3.8% Medicare tax on net investment income earned by certain individuals, estates and trusts for taxable years beginning after December 31, 2012. For these purposes, net investment income generally includes a unitholder's allocable share of our income and gain realized by a unitholder from a sale of units. In the case of an individual, the tax will be imposed on the lesser of (1) the unitholder's net investment income or (2) the amount by which the unitholder's modified adjusted gross income exceeds \$250,000 (if the unitholder is married and filing jointly or a surviving spouse), \$125,000 (if the unitholder is married and filing separately) or \$200,000 (in any other case). In the case of an estate or trust, the tax will be imposed on the lesser of (1) undistributed net investment income, or (2) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.

Certain federal income tax preferences currently available with respect to coal exploration and development may be eliminated as a result of future legislation.

Among the proposed legislative changes contained in the President's Budget Proposal for Fiscal Year 2011 is the elimination of certain key U.S. federal income tax preferences relating to coal exploration and development. The Budget Proposal would (i) require capitalization of exploration and development costs relating to coal and other hard mineral fossil fuels, (ii) repeal the percentage depletion allowance with respect to coal properties, (iii) repeal capital gains treatment of coal and lignite royalties and (iv) exclude from the definition of domestic production gross receipts all gross receipts derived from the sale, exchange, or other disposition of coal, other hard mineral fossil fuels, or primary products thereof. These proposed legislative changes could adversely affect the lessees of Penn Virginia Resource Partners, L.P., as well as owners of partnership interests in Penn Virginia Resource Partners, L.P. and our unitholders. Passage of such proposed legislative changes or similar changes in U.S. federal income tax laws could increase the amount of taxable income allocable to our unitholders, increase the tax liability of unitholders with respect to an investment in us and negatively impact the value of an investment in our units.

Item 6 *Exhibits*

- 10.1 Underwriting Agreement, dated June 2, 2010, by and among Penn Virginia GP Holdings, L.P., PVG GP, LLC, Penn Virginia Resource LP Corp., Penn Virginia Resource GP Corp. and Barclays Capital Inc., as the underwriter (incorporated by reference to Exhibit 1.1 to Registrant's Current Report on Form 8-K filed on June 7, 2010).
- 10.2 Contribution Agreement, dated June 7, 2010, by and among Penn Virginia Resource GP Corp., Penn Virginia GP Holdings, L.P. and PVG GP, LLC (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on June 7, 2010).
- 10.3 Second Amendment to Amended and Restated Credit Agreement, dated as of June 7, 2010, by and among PVR Finco LLC, the guarantors party thereto, PNC Bank, National Association, as Administrative Agent, and the other financial institutions party thereto (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on June 7, 2010).
- 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: July 30, 2010

By: /s/ ROBERT B. WALLACE
Robert B. Wallace
Executive Vice President and Chief Financial Officer

Date: July 30, 2010

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

Penn Virginia GP Holdings, L.P.
Statement of Computation of Ratio of Earnings to Fixed Charges Calculation
(in thousands, except ratios)

	Year Ended December 31,					Six Months Ended
	2005	2006	2007	2008	2009	June 30 2010
Earnings						
Pre-tax income *	\$22,038	\$33,030	\$28,098	\$101,701	\$60,148	\$ 38,179
Fixed charges	14,351	19,783	19,766	26,850	27,368	16,158
Total earnings	<u>\$36,389</u>	<u>\$52,813</u>	<u>\$47,864</u>	<u>\$128,551</u>	<u>\$87,516</u>	<u>\$ 54,337</u>
Fixed Charges						
Interest expense	\$14,053	\$19,151	\$18,896	\$ 25,346	\$24,878	\$ 14,730
Rental interest factor	298	632	870	1,504	2,490	1,428
Total fixed charges	<u>\$14,351</u>	<u>\$19,783</u>	<u>\$19,766</u>	<u>\$ 26,850</u>	<u>\$27,368</u>	<u>\$ 16,158</u>
Ratio of earnings to fixed charges	2.5x	2.7x	2.4x	4.8x	3.2x	3.4x

* Includes cash distributions from equity affiliates and excludes equity earnings from affiliates. Also excludes capitalized interest.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William H. Shea, Jr., President and Chief Executive Officer of PVG GP, LLC, the general partner of Penn Virginia GP Holdings, L.P. (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant (this "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the board of directors of the general partner of the Registrant:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 30, 2010

/s/ William H. Shea, Jr.

William H. Shea, Jr.

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert B. Wallace, Executive Vice President and Chief Financial Officer of PVG GP, LLC, the general partner of Penn Virginia GP Holdings, L.P. (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant (this "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the board of directors of the general partner of the Registrant:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 30, 2010

/s/ Robert B. Wallace

Robert B. Wallace

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Penn Virginia GP Holdings, L.P. (the "Partnership") on Form 10-Q for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Shea, Jr., President and Chief Executive Officer of PVG GP, LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: July 30, 2010

/s/ William H. Shea, Jr.

William H. Shea, Jr.

President and Chief Executive Officer

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Penn Virginia GP Holdings, L.P. (the "Partnership") on Form 10-Q for the quarter ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert B. Wallace, Executive Vice President and Chief Financial Officer of PVG GP, LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: July 30, 2010

/s/ Robert B. Wallace

Robert B. Wallace

Executive Vice President and Chief Financial Officer

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Report. A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.