

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

**FORM 10-Q**

**(MARK ONE)**

**[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED July 29, 2006**  
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 1-9299



**JOY GLOBAL INC.**  
(Exact Name of Registrant as Specified in Its Charter)



Delaware  
(State of Incorporation)

39-1566457  
(I.R.S. Employer  
Identification No.)

100 East Wisconsin Ave, Suite 2780  
Milwaukee, Wisconsin 53202  
(Address of principal executive offices)  
(Zip Code)

(414) 319-8500  
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. LARGE ACCELERATED FILER [X] ACCELERATED FILER [ ] NON-ACCELERATED FILER [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at August 29, 2006</u>
Common Stock, \$1 par value	118,674,023 shares

**JOY GLOBAL INC.**

**FORM 10-Q -- INDEX**  
**July 29, 2006**

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## PART I. - FINANCIAL INFORMATION

### Item 1. Financial Statements

#### JOY GLOBAL INC. CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited) (In thousands except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 29, 2006</b>	<b>July 30, 2005</b>	<b>July 29, 2006</b>	<b>July 30, 2005</b>
Net sales	\$ 598,710	\$ 512,874	\$ 1,712,399	\$ 1,359,248
Costs and expenses:				
Cost of sales	409,828	367,689	1,173,185	965,811
Product development, selling and administrative expenses	80,362	74,206	234,757	217,287
Other income	(1,144)	(1,281)	(6,105)	(2,596)
Operating income	109,664	72,260	310,562	178,746
Interest income (expense), net	381	(1,617)	2,887	(9,568)
Loss on early retirement of debt	-	(24,205)	-	(29,242)
Income from continuing operations before reorganization items	110,045	46,438	313,449	139,936
Reorganization items	1,895	1,167	6,847	3,490
Income from continuing operations before income taxes	111,940	47,605	320,296	143,426
Benefit (provision) for income taxes:	76,625	(17,154)	9,325	(52,423)
Income from continuing operations	188,565	30,451	329,621	91,003
Income from discontinued operations	-	331	-	786
Income before cumulative effect of changes in accounting principle	188,565	30,782	329,621	91,789
Cumulative effect of changes in accounting principle	-	-	1,565	-
Net income	<u>\$ 188,565</u>	<u>\$ 30,782</u>	<u>\$ 331,186</u>	<u>\$ 91,789</u>
Basic earnings per share*:				
Continuing operations	\$ 1.55	\$ 0.25	\$ 2.69	\$ 0.76
Cumulative effect of accounting changes	\$ -	\$ -	\$ 0.01	\$ -
Net income	<u>\$ 1.55</u>	<u>\$ 0.25</u>	<u>\$ 2.70</u>	<u>\$ 0.76</u>
Diluted earnings per share*:				
Continuing operations	\$ 1.53	\$ 0.25	\$ 2.66	\$ 0.74
Cumulative effect of accounting changes	\$ -	\$ -	\$ 0.01	\$ -
Net income	<u>\$ 1.53</u>	<u>\$ 0.25</u>	<u>\$ 2.67</u>	<u>\$ 0.74</u>
Dividends per share *	<u>\$ 0.1125</u>	<u>\$ 0.075</u>	<u>\$ 0.3375</u>	<u>\$ 0.20</u>
Weighted average shares outstanding*:				
Basic	<u>121,366</u>	<u>121,393</u>	<u>122,477</u>	<u>120,801</u>
Diluted	<u>122,912</u>	<u>123,440</u>	<u>124,133</u>	<u>123,330</u>

\* Share data adjusted for effect of stock splits completed on January 21, 2005 and December 12, 2005.

See accompanying notes to consolidated financial statements

**JOY GLOBAL INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(In thousands)

	<b>July 29, 2006</b>	<b>October 29, 2005</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 102,150	\$ 143,917
Accounts receivable, net	417,542	351,501
Inventories	623,080	548,195
Other current assets	49,101	73,070
Total current assets	1,191,873	1,116,683
Property, plant and equipment, net	199,250	199,180
Intangible assets, net	6,243	6,515
Deferred income taxes	375,764	225,138
Prepaid benefit cost	73,782	87,308
Other assets	29,673	13,704
Total assets	<u>\$ 1,876,585</u>	<u>\$ 1,648,528</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term notes payable, including current portion of long-term debt	\$ 693	\$ 964
Trade accounts payable	156,619	160,627
Employee compensation and benefits	61,039	91,172
Advance payments and progress billings	183,608	187,710
Accrued warranties	38,901	34,183
Other accrued liabilities	104,012	124,857
Total current liabilities	544,872	599,513
Long-term obligations	77,296	1,703
Accrued pension costs	302,701	301,161
Other	76,563	78,525
Total liabilities	1,001,432	980,902
Shareholders' equity	875,153	667,626
Total liabilities and shareholders' equity	<u>\$ 1,876,585</u>	<u>\$ 1,648,528</u>

See accompanying notes to consolidated financial statements

**JOY GLOBAL INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	<b>Nine Months Ended</b>	
	<b>July 29, 2006</b>	<b>July 30, 2005</b>
Cash flows from operating activities:		
Net income	\$ 331,186	\$ 91,789
Non-cash items:		
Cumulative effect of an accounting change	(1,565)	-
Depreciation and amortization	28,785	31,433
Amortization of financing fees	225	1,160
Loss on early retirement of debt	-	29,242
Increase (decrease) in deferred income taxes, net of change in valuation allowance	(72,446)	26,945
Excess income tax benefits from exercise of stock options	(20,432)	-
Change in long-term accrued pension costs	17,271	8,843
Other, net	(3,215)	359
Contributions to U.S. qualified pension plans	-	(48,400)
Changes in working capital items:		
(Increase) decrease in accounts receivable, net	(62,341)	(57,552)
(Increase) decrease in inventories	(70,808)	(101,473)
(Increase) decrease in other current assets	4,355	(7,289)
Increase (decrease) in trade accounts payable	(5,727)	8,451
Increase (decrease) in employee compensation and benefits	(15,224)	(1,824)
Increase (decrease) in advance payments and progress billings	(4,933)	78,493
Increase (decrease) in other accrued liabilities	20,831	22,073
Net cash provided by operating activities	<u>145,962</u>	<u>82,250</u>
Cash flows from investing activities:		
Property, plant and equipment acquired	(32,788)	(27,190)
Proceeds from sale of property, plant and equipment	8,178	1,768
Other, net	1,566	604
Net cash used by investing activities	<u>(23,044)</u>	<u>(24,818)</u>
Cash flows from financing activities:		
Exercise of stock options	14,033	9,149
Excess income tax benefits from exercise of stock options	20,432	-
Dividends paid	(41,128)	(24,448)
Purchase of treasury stock	(234,139)	-
Repurchase of 8.75% Senior Subordinated Notes	-	(224,520)
Issuance (repayment) of long-term obligations, net	75,328	24,404
Increase (decrease) in short-term notes payable	-	(2,297)
Financing fees	-	(112)
Net cash used by financing activities	<u>(165,474)</u>	<u>(217,824)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>789</u>	<u>(1,419)</u>
Decrease in Cash and Cash Equivalents	(41,767)	(161,811)
Cash and Cash Equivalents at Beginning of Period	143,917	231,706
Cash and Cash Equivalents at End of Period	<u>\$ 102,150</u>	<u>\$ 69,895</u>

See accompanying notes to consolidated financial statements

**JOY GLOBAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**July 29, 2006**  
**(Unaudited)**

**1. Description of Business**

Joy Global Inc., a worldwide leading manufacturer and servicer of high productivity mining equipment for the extraction of coal and other minerals and ores, produces equipment used in major mining regions throughout the world to mine coal, copper, iron ore, oil sands and other minerals. We operate in two business segments: underground mining machinery (Joy Mining Machinery or “Joy”) and surface mining equipment (P&H Mining Equipment or “P&H”). Joy is a major manufacturer of underground mining equipment for the extraction of coal and other bedded minerals and offers comprehensive service locations near major mining regions worldwide. P&H is a major producer of surface mining equipment for the extraction of ores and minerals and provides extensive operational support for many types of equipment used in surface mining.

**2. Basis of Presentation**

The Condensed Consolidated Financial Statements presented in this quarterly report on Form 10-Q are unaudited and have been prepared by us in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission.

In our opinion, all adjustments necessary for the fair presentation on a going concern basis of the results of operations, cash flows and financial position for all periods presented have been made. All adjustments made are of a normal recurring nature.

These financial statements should be read in conjunction with the financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended October 29, 2005. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of the financial statements in conformity with GAAP for interim financial information requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from the estimates.

**3. Shareholders’ Equity**

On November 15, 2005 our Board of Directors declared a three-for-two split of our common shares, payable on December 12, 2005 to shareholders of record on November 28, 2005. On December 15, 2004, our Board of Directors authorized a three-for-two split of our common shares, payable on January 21, 2005 to shareholders of record on January 6, 2005. In connection with the respective stock splits, each holder of Joy Global common stock received one additional share of Joy Global common stock for each two shares of such stock owned. Cash was distributed in lieu of fractional shares. References in the Condensed Consolidated Financial Statements to the number of common shares and related per share amounts have been restated to reflect the respective stock splits.

On May 25, 2006, our Board of Directors declared a cash dividend of \$0.1125 per outstanding share of common stock. The dividend was paid on June 23, 2006 to all shareholders of record at the close of business on June 9, 2006.

In November 2005, we commenced purchases under our share repurchase program. Under the program, management is authorized to repurchase up to \$300.0 million in shares in the open market or through privately negotiated transactions. We have repurchased approximately \$197.0 million of common stock, representing 3,822,811 shares, under the program for the three months ended July 29, 2006 and approximately \$234.1 million of common stock, representing 4,568,761 shares, under the program for the nine months ended July 29, 2006.

Comprehensive income (loss) consisted of the following:

In thousands	Three Months Ended		Nine Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Net income	\$ 188,565	\$ 30,782	\$ 331,186	\$ 91,789
Other comprehensive income (loss):				
Minimum pension liability adjustment	-	-	3,376	-
Translation adjustments	(4,228)	(13,310)	4,995	(6,025)
Derivative fair value adjustments	2,246	(7,541)	6,985	(7,136)
Total other comprehensive income (loss)	(1,982)	(20,851)	15,356	(13,161)
Total comprehensive income	<u>\$ 186,583</u>	<u>\$ 9,931</u>	<u>\$ 346,542</u>	<u>\$ 78,628</u>

#### 4. Share Based Compensation

Effective October 30, 2005, we adopted Statement of Financial Accounting Standards (“SFAS”) 123(R), Share Based Payments (“SFAS 123(R)”) using the modified prospective transition method. SFAS 123(R) requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Compensation expense is recognized using the straight-line method over the vesting period of the award.

Our stock incentive plan authorizes the grant of up to 18.1 million stock options, performance shares, restricted stock units and other stock-based awards to officers, employees and directors. As of July 29, 2006 share based payment grants aggregating approximately 15.7 million shares of common stock had been made to approximately 350 individuals. We have historically issued new common stock in order to satisfy share based payment awards and plan to do so to satisfy future awards.

Prior to the adoption of SFAS 123(R), we accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (“APB 25”). As a result of adopting SFAS 123(R), we recorded a cumulative effect of a change in accounting principle related to the performance share award program. The cumulative effect of a change in accounting principle added \$1.6 million (net of taxes of \$0.8 million) or \$.01 a share to net income for the nine months ended July 29, 2006. Under APB 25, we recorded share based payment expense related to performance share awards and restricted stock units. For performance share awards, we recorded compensation expense over the vesting period of the underlying common stock based on the market value of the underlying stock throughout the vesting period. For restricted stock unit awards, we recorded compensation expense based on the grant date market value of the underlying common stock.

We had previously followed the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS 123 allowed for the recognition of forfeitures as incurred while SFAS 123(R) requires an estimate of forfeitures at the grant date with adjustments based on actual forfeitures on a quarterly basis. Historical forfeitures related to stock options, restricted stock units and performance shares have been insignificant.

The total stock-based compensation expense we recognized for the three months and nine months ended July 29, 2006 was approximately \$2.5 million and \$6.6 million, respectively. The corresponding income tax benefit recognized related to the stock-based compensation expense was approximately \$0.8 million and \$2.1 million, respectively. As of July 29, 2006, we have unrecognized expense related to share based payments of \$14.1 million, which we expect to recognize over a weighted average period of approximately 2.2 years.

As a result of adopting SFAS 123(R), our income from continuing operations before income taxes and net income for the nine months ended July 29, 2006, were \$1.1 million and \$0.8 million lower, respectively, than if we had continued to account for stock-based compensation under APB 25. The impact of adopting SFAS 123(R) did not have a material effect on basic and diluted earnings per share. The difference in the impact primarily relates to the difference in accounting for performance share awards under SFAS 123(R).

#### *Stock Options*

We have granted non-qualified stock options to purchase our common stock at prices equal to the fair market value of the stock on the grant dates. Stock options vest ratably on one-year anniversary dates over three years and expire ten years from the grant date.

The fair value of the stock awards is the estimated fair value at grant date using the Black Scholes valuation model with weighted average assumptions and the resulting estimated fair value as follows:

	<b>Nine Months Ended</b>	
	<b>July 29, 2006</b>	<b>July 30, 2005</b>
Risk free interest rate	4.5%	3.5%
Expected volatility	34.3%	46.6%
Expected life	3.1	4.0
Dividend yield	1.45%	1.45%
Weighted average estimated fair value at grant date	\$ 8.49	\$ 6.45

The risk free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected volatility is based on the historical volatility of our common stock. The expected life is based on historical exercise behavior and the projected exercise of unexercised stock options. The expected dividend yield is based on the expected annual dividends divided by the grant date market value of our common stock.



A summary of stock option activity under all plans is as follows:

<b>(In thousands except per share amounts)</b>	<b>Number of Options</b>	<b>Weighted- Average Exercise Price per Share</b>	<b>Weighted- Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at October 29, 2005	3,672,650	\$ 10.75		
Options granted	701,125	32.08		
Options exercised	(1,723,574)	8.15		
Options forfeited or cancelled	(73,070)	16.07		
Outstanding at July 29, 2006	2,577,131	\$ 18.13	8.0	\$ 50,279
Exercisable at July 29, 2006	849,383	\$ 9.50	6.7	23,898

### *Restricted Stock Units*

We grant restricted stock units to certain employees and members of our Board of Directors (“Directors”). Restricted stock units granted to employees vest over a five-year period with one-third vesting on the third, fourth and fifth anniversaries of the grant date and provide that a number of shares of common stock equal to the number of vested units will be delivered to the individual as the units vest. Restricted stock units granted to Directors vest one year from the grant date and provide that a number of common stock shares equivalent to the restricted stock units will be delivered to the individual director one year after their service on the Board of Directors terminates.

A summary of restricted stock unit activity under all plans is as follows:

	<b>Number of Units</b>	<b>Weighted- Average Grant Date Fair Value</b>
Outstanding at October 29, 2005	312,993	\$ 10.63
Units granted	60,605	36.79
Units earned from dividends	2,468	49.22
Units forfeited	(11,925)	15.39
Units not yet vested at July 29, 2006	364,141	\$ 15.09

### *Performance Shares*

The performance share award programs under our stock incentive plans provide long-term incentive compensation opportunities to certain senior executives and other managers. Up to approximately 434,700 shares of common stock may be earned by the participating executives under these performance share award programs if at the end of a three-year award cycle our financial performance over the course of the cycle exceeds certain threshold amounts. For our 2004 and 2005 performance share award programs, the performance measure is cumulative net cash flow as defined in the performance award agreements. For our 2006 performance share award program, the performance measure for senior executive officers is return on equity and the performance measure for all other participants is EBIT (earnings before income taxes) margin, each as defined in the respective performance award agreements. Each performance share represents the right to earn one share of common stock. Awards can range from 0% to 150% (or, in certain cases, 180%) of

the target award opportunities and may be paid out in stock, cash or a combination of stock and cash as determined by the Human Resources and Nominating Committee of the Board of Directors.

A summary of performance share activity under all plans is as follows:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at October 29, 2005	859,873	\$ 6.94	
Shares granted	74,825	32.86	
Shares distributed	(214,253)	4.71	\$ 9,251
Shares deferred	(372,153)	4.71	\$ 16,069
Shares forfeited	(6,261)	11.69	
Shares not yet awarded at July 29, 2006	342,031	\$ 15.59	

As of July 30, 2005, awards under the stock incentive plan were accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The following table illustrates the effect on net income and net income per share if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

<b>In thousands except per share data</b>	<b>Three Months Ended July 30, 2005</b>	<b>Nine Months Ended July 30, 2005</b>
Net income, as reported	\$ 30,782	\$ 91,789
Add:		
Compensation expense included in reported net income, net of related tax effect	2,893	7,308
Deduct:		
Compensation expense determined under SFAS No. 123, net of related taxes	(1,223)	(4,541)
Pro forma net income	<u>\$ 32,452</u>	<u>\$ 94,556</u>
Net income per share *		
As reported		
Basic	<u>\$ 0.25</u>	<u>\$ 0.76</u>
Diluted	<u>\$ 0.25</u>	<u>\$ 0.74</u>
Pro forma *		
Basic	<u>\$ 0.27</u>	<u>\$ 0.78</u>
Diluted	<u>\$ 0.26</u>	<u>\$ 0.77</u>

\* Share data adjusted for effect of 3-for-2 stock splits completed on January 21, 2005 and December 12, 2005.

## 5. Basic and Diluted Net Income Per Share

Basic net income per share is computed based on the weighted-average number of shares outstanding during each period. Diluted net income per share is computed based on the weighted average number of ordinary shares during each period, plus dilutive potential shares considered outstanding during the period in accordance with SFAS No. 128, "Earnings per Share."

The following table sets forth the computation of basic and diluted earnings per share:

<b>In thousands except per share data</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 29, 2006</b>	<b>July 30, 2005</b>	<b>July 29, 2006</b>	<b>July 30, 2005</b>
Numerator:				
Income from continuing operations	\$ 188,565	\$ 30,451	\$ 329,621	\$ 91,003
Income from discontinued operations	-	331	-	786
Cumulative effect of accounting change, net of income taxes	-	-	1,565	-
Net income	<u>\$ 188,565</u>	<u>\$ 30,782</u>	<u>\$ 331,186</u>	<u>\$ 91,789</u>
Denominator:				
Denominator for basic net income per share - Weighted average shares	121,366	121,393	122,477	120,801
Effect of dilutive securities:				
Stock options, restricted stock units and performance shares	<u>1,546</u>	<u>2,047</u>	<u>1,656</u>	<u>2,529</u>
Denominator for diluted net income per share - Adjusted weighted average shares and assumed conversions	<u>122,912</u>	<u>123,440</u>	<u>124,133</u>	<u>123,330</u>
Basic earnings per share*				
Continuing operations	\$ 1.55	\$ 0.25	\$ 2.69	\$ 0.76
Discontinued operations	-	-	-	-
Cumulative effect	-	-	0.01	-
Net income	<u>\$ 1.55</u>	<u>\$ 0.25</u>	<u>\$ 2.70</u>	<u>\$ 0.76</u>
Diluted earnings per share*				
Continuing operations	\$ 1.53	\$ 0.25	\$ 2.66	\$ 0.74
Discontinued operations	-	-	-	-
Cumulative effect	-	-	0.01	-
Net income	<u>\$ 1.53</u>	<u>\$ 0.25</u>	<u>\$ 2.67</u>	<u>\$ 0.74</u>

\*Share data adjusted for effect of stock splits completed on January 21, 2005 and December 12, 2005.

## **6. Credit Facility**

On October 28, 2005, we entered into a \$400.0 million unsecured revolving credit facility expiring on November 15, 2010. Outstanding borrowings bear interest equal to LIBOR plus the applicable margin (0.5% to 1.25%) or the Base Rate (defined as the higher of the Prime Rate or the Federal Funds Effective Rate plus 0.50%) at our option. We pay a commitment fee ranging from 0.125% to 0.25% on the unused portion of the revolving credit facility. The Credit Agreement requires the maintenance of certain financial covenants including leverage, interest coverage and capital expenditures. The agreement also requires a minimum net worth of approximately \$396 million, increased by 25% of net income on a quarterly basis beginning with the fourth quarter of fiscal 2005. On July 29, 2006, we were in compliance with all financial covenants in the Credit Agreement.

At July 29, 2006, there was \$76.0 million of outstanding direct borrowings under the Credit Agreement. Outstanding letters of credit issued under the Credit Agreement, which count toward the \$400.0 million credit limit, totaled \$82.1 million. At July 29, 2006, there was \$241.9 million available for borrowings under the Credit Agreement.

## **7. Contingent Liabilities**

We and our subsidiaries are involved in various unresolved legal matters that arise in the normal course of operations, the most prevalent of which relate to product liability (including asbestos-related and silicosis liability), employment and commercial matters. Also, as a normal part of their operations, our subsidiaries undertake contractual obligations, warranties and guarantees in connection with the sale of products or services. Although the outcome of these matters cannot be predicted with certainty and favorable or unfavorable resolutions may affect the results of operations on a quarter-to-quarter basis, we believe that the outcome of such legal and other matters will not have a materially adverse effect on our consolidated financial position, results of operations or liquidity.

On June 29, 2006 the United States District Court for the District of Massachusetts granted final approval of a negotiated settlement of a lawsuit commenced in 2001 relating to the Harnischfeger Industries Employees' Savings Plan. Our insurers are responsible for all payments required under the settlement.

From time to time we and our subsidiaries become involved in proceedings relating to environmental matters. We believe that the resolution of such environmental matters will not have a materially adverse effect on our consolidated financial position, results of operations or liquidity.

At July 29, 2006, we were contingently liable to banks, financial institutions and others for approximately \$105.7 million for outstanding letters of credit, bank guarantees and surety bonds securing performance of sales contracts and other guarantees in the ordinary course of business. At July 29, 2006, there were \$5.6 million of outstanding letters of credit or other guarantees issued by non-U.S. banks for non-U.S. subsidiaries.

We have entered into various forward exchange contracts with major international financial institutions for the purpose of hedging our risk of loss associated with changes in foreign exchange rates. These contracts involve off-balance-sheet market and credit risk. As of July 29, 2006, the nominal or face value of forward exchange contracts to which we are a party, in absolute U.S. dollar equivalent terms, was \$240.5 million.

Forward exchange contracts are entered into to protect the value of committed future foreign currency receipts and disbursements and net investment hedges and consequently any market related loss on the

forward contract would be offset by changes in the value of the hedged item. As a result, we are not exposed to net market risk associated with these instruments.

We are exposed to credit-related losses in the event of non-performance by counterparties to our forward exchange contracts, but we do not expect any counterparties to fail to meet their obligations. A contract is generally subject to credit risk only when it has a positive fair value and the maximum exposure is the amount of the positive fair value.

## 8. Inventories

Consolidated inventories, net consisted of the following:

<b>In thousands</b>	<b>July 29, 2006</b>	<b>October 29, 2005</b>
Finished goods	\$ 306,587	\$ 274,211
Work in process and purchased parts	284,794	236,165
Raw materials	31,699	37,819
	<u>\$ 623,080</u>	<u>\$ 548,195</u>

## 9. Warranties

We provide a warranty reserve for the estimated costs that may be incurred under product warranties to remedy deficiencies of quality or performance in our products. These product warranties extend over either a specified period of time, units of production or machine hours depending upon the product subject to the warranty. We accrue a provision for estimated future warranty costs based upon the historical relationship of warranty costs to sales. The warranty reserve is included in other accrued liabilities in the Condensed Consolidated Balance Sheet. We periodically review the adequacy of the accrual for product warranties and adjust the warranty percentage and accrued warranty reserve for actual experience as appropriate.

The following table reconciles the changes in the Company's product warranty reserve:

<b>In thousands</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>July 29, 2006</b>	<b>July 30, 2005</b>	<b>July 29, 2006</b>	<b>July 30, 2005</b>
Balance, beginning of period	\$ 38,722	\$ 34,240	\$ 34,183	\$ 31,259
Accrual for warranty expensed during the period	3,911	6,173	15,295	18,029
Settlements made during the period	(4,254)	(4,169)	(11,338)	(12,939)
Change in liability for pre-existing warranties during the period, including expirations	575	14	290	(540)
Effect of foreign currency translation	(53)	(1,119)	471	(670)
Balance, end of period	<u>\$ 38,901</u>	<u>\$ 35,139</u>	<u>\$ 38,901</u>	<u>\$ 35,139</u>

## 10. Reorganization Items

Reorganization items include income, expense and loss that were realized or incurred as a result of our reorganization under Chapter 11 of the Bankruptcy Code. For the nine months ended July 29, 2006, the \$6.8 million of reorganization income represented cash receipts from a fully reserved note receivable of \$5.2 million and cash receipts on the settlement on a previously allowed claim of \$1.9 million, offset by post emergence professional fees. For the nine months ended July 30, 2005, the \$3.5 million of reorganization income included \$1.5 million from insurance settlements, \$1.4 million from legal reserves no longer required and approximately \$1.1 million of cash receipts from a fully reserved note receivable, offset by post emergence professional fees.

## 11. Income Taxes

A review of the realizability of deferred tax assets was performed as part of the analysis of the three months ended July 29, 2006 income tax provision. Based on this analysis, valuation allowances of \$179.2 million were reversed relating to pre-emergence and post-emergence deferred income tax assets (\$68.0 million and \$111.2 million, respectively) related to U.S. Federal net deferred income tax assets. The reversal of valuation allowances related to pre-emergence deferred income tax assets is being recorded as additional paid in capital in accordance with Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." The reversal of valuation allowances related to the post-emergence deferred income tax assets is recorded as a discrete tax benefit of \$111.2 million (\$0.90 per diluted share) through our provision for income taxes. Included in the discrete tax benefit is \$95.1 million related to the reversal of valuation allowances initially recorded as part of our minimum pension liability within accumulated other comprehensive income. The corresponding amount that would be recorded within accumulated other comprehensive income related to our minimum pension liability should the minimum pension liability reverse would be recorded in our income statement as a charge if the related pension plan is terminated in the future.

Additionally, the three months ended April 29, 2006 were impacted by the reversal of approximately \$6.3 million of discrete tax benefits that were recorded relating to certain valuation reserves applicable to our Australian consolidated tax group.

The following table reconciles the statutory rate to the effective tax rate.

	<b>Three Months Ended July 29, 2006</b>	<b>Nine Months Ended July 29, 2006</b>
Statutory Rate	35.0%	35.0%
Other items	(4.1%)	(1.2%)
	<u>30.9%</u>	<u>33.8%</u>
Valuation allowance reversal	(99.4%)	(36.7%)
Effective tax rate	<u>(68.5%)</u>	<u>(2.9%)</u>

## 12. Pension and Postretirement

The components of net periodic benefit costs recognized are as follows:

In thousands	Pension Benefits		Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Service cost	\$ 5,249	\$ 4,709	\$ 48	\$ 42
Interest cost	18,593	17,702	820	717
Expected return on assets	(20,511)	(20,257)	-	-
Amortization of:				
Prior service cost	111	111	124	-
Actuarial (gain) loss	5,272	3,386	231	52
Net periodic benefit cost	<u>\$ 8,714</u>	<u>\$ 5,651</u>	<u>\$ 1,223</u>	<u>\$ 811</u>

In thousands	Pension Benefits		Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Service cost	\$ 15,747	\$ 14,127	\$ 145	\$ 127
Interest cost	55,779	53,106	2,325	2,151
Expected return on assets	(61,534)	(60,771)	-	-
Amortization of:				
Prior service cost	332	333	124	-
Actuarial (gain) loss	15,816	10,158	622	156
Net periodic benefit cost	<u>\$ 26,140</u>	<u>\$ 16,953</u>	<u>\$ 3,216</u>	<u>\$ 2,434</u>

No contributions are required to be made to our U.S. qualified pension plans in Fiscal 2006.

## 13. Segment Information

At July 29, 2006, we had two reportable segments: Underground Mining Machinery and Surface Mining Equipment. Operating income (loss) of the segments does not include interest income (expense) or (benefit) provision for income taxes. There are no significant intersegment sales. There has not been a material change in segment total assets from October 29, 2005.

<b>In thousands</b>	<b>2006 Third Quarter</b>		<b>2005 Third Quarter</b>	
	<b>Net Sales</b>	<b>Operating Income (Loss)</b>	<b>Net Sales</b>	<b>Operating Income (Loss)</b>
Underground Mining Machinery	\$ 352,213	\$ 75,173	\$ 278,901	\$ 48,818
Surface Mining Equipment	246,497	42,165	233,973	31,486
Total operations	598,710	117,338	512,874	80,304
Corporate	-	(7,674)	-	(8,044)
Consolidated Total	<u>\$ 598,710</u>	<u>\$ 109,664</u>	<u>\$ 512,874</u>	<u>\$ 72,260</u>

<b>In thousands</b>	<b>2006 Nine Months</b>		<b>2005 Nine Months</b>	
	<b>Net Sales</b>	<b>Operating Income (Loss)</b>	<b>Net Sales</b>	<b>Operating Income (Loss)</b>
Underground Mining Machinery	\$ 1,028,796	\$ 216,907	\$ 800,489	\$ 121,469
Surface Mining Equipment	683,603	116,023	558,759	81,309
Total operations	1,712,399	332,930	1,359,248	202,778
Corporate	-	(22,368)	-	(24,032)
Consolidated Total	<u>\$ 1,712,399</u>	<u>\$ 310,562</u>	<u>\$ 1,359,248</u>	<u>\$ 178,746</u>

#### 14. Recent Accounting Pronouncements

In November 2004, FASB issued FAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4", to improve financial reporting and global comparability of inventory accounting. The amendment, which adopted language similar to that used in the IASB International Accounting Standard 2 ("IAS 2"), clarifies that inventory related expenses, such as abnormal amounts of idle facility expense, freight, handling costs, and wasted or spoiled materials should be recognized as current period charges. The statement also requires fixed production overhead allocations to inventory based on normal capacity of the production facilities. The guidance is effective for inventory costs incurred beginning in our fiscal year 2006. The adoption of FAS No. 151 did not have a significant impact on the consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 provides clarifying guidance on the need to record a liability on the legal obligation to perform an asset retirement if the fair value of the liability can be reasonably estimated. If sufficient information is not available in order to reasonably estimate the liability, the interpretation requires certain disclosures of the obligation. We are required to adopt FIN 47 during the fourth quarter of 2006. We are currently assessing the impact the adoption of FIN 47 will have on the results of our operations.



## **15. Subsequent Events**

On July 31, 2006, we completed the acquisition of the net assets of the Stamler mining equipment business from the Oldenburg Group, Inc. for approximately \$117 million in cash borrowed under our unsecured revolving credit facility. Stamler manufactures products used primarily in underground coal mining applications, including feeder breakers, battery haulers, and continuous haulage systems. The Stamler business is in line with our stated objectives of adding bolt-on products and services to our existing businesses. We are currently evaluating purchase accounting adjustments related to the net assets purchased along with goodwill and other intangible assets.

In August 2006, we continued purchases under our share repurchase program. We repurchased approximately \$21.3 million of common stock, representing 579,530 shares, under the program through August 30, 2006.

On August 24, 2006, our Board of Directors declared a cash dividend of \$0.1125 per outstanding share of common stock. The dividend will be paid on September 22, 2006 to all shareholders of record at the close of business on September 8, 2006.

## **16. Discontinued Operations and Held for Sale Assets and Liabilities**

In November 2005, we concluded the sale of the stock of The Horsburgh & Scott Co. (“H&S”) to members of the management team for cash and a note receivable of approximately \$10.9 million. The gain on the sale of \$1.5 million will be deferred until realizability is reasonably assured and is presented as a contra account to the note receivable. Approximately \$3.4 million was recorded in accumulated other comprehensive income at October 29, 2005 relating to the minimum pension liability associated with H&S, all of which has been derecognized upon conclusion of the sale in November 2005. H&S was classified as part of the surface mining equipment segment.

H&S is classified as a discontinued operation in accordance with SFAS No. 144 for all prior periods presented. The Condensed Consolidated Statement of Income for the three months and nine months ended July 30, 2005 has been reclassified to reflect the discontinuance of operations. Basic and diluted earnings per share from discontinued operations for the three months and nine months ended July 30, 2005 have not been presented as the effect is deemed immaterial.

H&S has met the definition of a variable interest entity (“VIE”) in accordance with FASB Interpretation No. 46, Consolidation of Variable Interest Entities – an Interpretation on ARB No. 51 (“FIN 46”). We are not required to consolidate the VIE based on the requirements of the interpretation as we are not the primary beneficiary of the residual interests in the VIE.

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

*Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Forward-looking statements are subject to risks, uncertainties and assumptions which could cause actual results to differ materially from those projected, including those described in Item 5 - Other Information – Forward-Looking Statements and Cautionary Factors in Part II of this report.*

*The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes to the Condensed Consolidated Financial Statements in Item 1 of this report.*

### **Overview**

Joy Global Inc., a worldwide leader in high-productivity mining solutions, manufactures and markets original equipment and aftermarket parts and services for both the underground and surface mining industries through two business segments, Joy Mining Machinery and P&H Mining Equipment. Our principal manufacturing facilities are located in the United States, including facilities in Pennsylvania and Wisconsin, and in the United Kingdom, South Africa, Chile and Australia.

#### *Demand*

Worldwide commodity markets primarily drive the demand for our original equipment and aftermarket parts and service. The original equipment demand can be correlated with increased productivity at existing mines along with the development of new mines while aftermarket parts and service are directly related with increased productivity on the installed base. Other factors that effect demand for our products and services include the regulatory environment in which our customers operate, economic strength of emerging markets and political factors.

#### *Market Conditions*

Conditions in almost all commodity markets served by the our customers continue to grow, with pricing continuing to show the effects of positive demand and supply factors. Commodity demand continues to increase, either on a measured pace in the case of the U.S. coal market, or more vigorously in the case of copper, iron ore, the oil sands of Canada, or the emerging mining markets in China, India and Russia. Supply growth constraints in the majority of markets we serve, combined with still increasing demand reinforces management's belief that the current cyclical upturn will continue for the foreseeable future.

Conditions in the U.S. coal market, our largest single market, have started to show short-term volatility. Mainly due to less extreme weather during the past winter and into summer, spot coal pricing has lowered which in turn has caused certain production cutbacks being implemented by our customers and in some instances, delayed or deferred the placement of new orders for original equipment. However, short-term fluctuations in the U.S. coal markets are not expected to affect the long-term strategic direction of our customers. The long-term supply and demand situation for coal in the U.S. is favorable, as new coal-fired power plants continue to be announced, the retrofit of existing plants with scrubbers accelerates, and new coal technology projects are undertaken. Taken together, all of these factors should contribute to an extended overall cycle, although we would not be surprised to see this volatility continue for an additional few quarters.

Worldwide commodity markets for copper, iron ore and coal remain very robust. Prices for these commodities, while volatile, are well in excess of production costs and are driving increased revenues in our business, particularly

at P&H Mining. As a result of the strength in these and other markets, P&H Mining could expect to receive orders for new mining shovels in excess of their production capacity in the next few quarters, as happened again in the current quarter.

### *3<sup>rd</sup> Quarter Update and Beyond*

On June 1, 2006, Joy Mining reached a four-year labor agreement covering approximately 650 employees of its Franklin, PA facilities.

As detailed in our Analyst Day earlier this summer, significant efforts and initiatives are underway by Joy Mining in China with the forecast of realizing \$500 million in annual revenues in China by 2010.

The expansion project for increasing mining shovel capacity at P&H Mining by 40% continues to stay on schedule for completion in December 2006. Joy Mining continues to increase production rates in several of their product lines. There are also current expansion projects in China and Poland to provide both original equipment and aftermarket services for Joy Mining. We are continuing to focus on supply chain issues as demand for original equipment and aftermarket parts and service remain at all time highs.

We have concluded our purchase of the net assets of the Stamler mining equipment business from the Oldenburg Group for approximately \$117 million during the 4<sup>th</sup> quarter of Fiscal 2006. This transaction will provide our underground mining segment with complementary offerings in coal mining applications, including feeder breakers, battery haulers, and continuous haulage systems.

## **Results of Operations**

### **Three Months Ended July 29, 2006 Compared to Three Months Ended July 30, 2005**

#### ***Net Sales***

The following table sets forth the combined net sales included in our Condensed Consolidated Statement of Income:

<b>In thousands</b>	<b>Three Months Ended</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>July 29, 2006</b>	<b>July 30, 2005</b>		
Underground Mining Machinery	\$ 352,213	\$ 278,901	\$ 73,312	26%
Surface Mining Equipment	246,497	233,973	12,524	5%
Total	<u>\$ 598,710</u>	<u>\$ 512,874</u>	<u>\$ 85,836</u>	17%

The increase in net sales for underground mining machinery in the third quarter of Fiscal 2006 compared to the third quarter of Fiscal 2005 was the result of a \$24.8 million, or 21%, increase in original equipment and a \$48.5 million, or 30%, increase in shipments of aftermarket products and service. Increases in original equipment sales of 27% and 21% were reported in emerging markets served out of the United Kingdom and the United States, respectively. The increase in the United Kingdom was primarily the result of strong shipments of armored face conveyors while the United States benefited from strong shipments of shuttle cars. Increases in aftermarket net sales were reported in South Africa, Australia and emerging markets served out of the United Kingdom, with each of these locations reporting greater than 30% increases in aftermarket sales in the third quarter of Fiscal 2006 compared to the third quarter of Fiscal 2005. Increases in aftermarket products and service in these regions are representative of the continuing strength of their respective coal mining markets.

The increase in net sales for surface mining equipment in the third quarter of Fiscal 2006 compared to the third quarter of Fiscal 2005 was the result of a \$25.2 million, or 18%, increase in aftermarket parts and service combined with a \$12.7 million, or 16%, decrease in original equipment sales. Increases in aftermarket sales were reported of 47%, 21%, 18% and 8% in Canada, Chile, the United States and Australia, respectively. The strong level of aftermarket sales in the third quarter of Fiscal 2006 reflected the continued strength of copper and coal on a global basis, and the oil sands development in Canada, and our focus on providing life cycle management on the installed base of equipment. The decrease in original equipment sales was due to a dragline sale in Australia in the third quarter of Fiscal 2005 not repeated in the third quarter of Fiscal 2006 of \$6.7 million and timing of sales of electric mining shovels from inventory in Canada and Chile in Fiscal 2005 versus Fiscal 2006 of \$10.6 million.

### ***Operating Income***

The following table sets forth the operating income (loss) included in our Condensed Consolidated Statement of Income:

<u>In thousands</u>	<b>Three Months Ended</b>			
	<b>July 29, 2006</b>		<b>July 30, 2005</b>	
	<b>Operating Income (loss)</b>	<b>Percent of Net Sales</b>	<b>Operating Income (loss)</b>	<b>Percent of Net Sales</b>
Operating income (loss):				
Underground Mining Machinery	\$ 75,173	21.3%	\$ 48,818	17.5%
Surface Mining Equipment	42,165	17.1%	31,486	13.5%
Corporate Expense	(7,674)		(8,044)	
Total	<u>\$ 109,664</u>	18.3%	<u>\$ 72,260</u>	14.1%

Operating income as a percentage of net sales for underground mining machinery increased from 17.5% in the third quarter of Fiscal 2005 to 21.3% in the third quarter of Fiscal 2006. The improvement in profitability was primarily due to a more profitable mix of original equipment and aftermarket net sales in the United States and Australia. The improvements in profitability were partially offset by increased warranty costs attributed to growth in original equipment sales.

Operating income as a percentage of net sales for surface mining equipment increased from 13.5% in the third quarter of Fiscal 2005 to 17.1% in the third quarter of Fiscal 2006. This improvement in profitability was due to an 18% increase in net sales on aftermarket parts and service, better mix within original equipment, improved margins on original equipment sales and a decrease in incentive plan expenses of \$1.3 million. This improvement was partially offset by \$1.5 million of higher selling and administrative expenses caused by negative currency effects from the strengthening of the Chilean, Brazilian and Australian currencies.

### ***Product Development, Selling and Administrative Expense***

Product development, selling and administrative expense totaled \$80.4 million, or 13% of sales, in the third quarter of Fiscal 2006, as compared to \$74.2 million, or 14% of sales, in the third quarter of Fiscal 2005. While a lower percentage of total sales, the 8% increase in product development, selling and administrative expense was primarily attributable to a \$1.8 million increase in engineering and research and development expenses and \$3.7 million increase in selling expenses related to increased business activity and spending on the development of emerging markets.

### ***Provision for Income Taxes***

The provision for income taxes for the third quarter of Fiscal 2006 was a benefit of \$(76.6) million as compared to an expense of \$17.2 million in the third quarter of Fiscal 2005. On a consolidated basis, these income tax provisions represented effective income tax rates for the third quarters of Fiscal 2006 and 2005 of (68.5)% and 36.0%, respectively. A review of the realizability of deferred tax asset allowances was performed as part of the analysis of the third quarter Fiscal 2006 income tax provision and a discreet tax benefit of \$111.2 million was recorded relating to certain valuation allowances applicable to our U.S. deferred income tax assets. On a recurring basis, the main drivers of the variance in tax rates both year-to-year and in relation to the U.S. statutory rate of 35% were the increased global profitability year over year, changes in the geographic mix of earnings, differences in local statutory tax rates, and the projected impact of the utilization of certain U.S. state net operating loss

carryforwards for which the reversal of the related valuation reserves will not be recognized as part of the income tax provision due to fresh start accounting.

Excluding the impact of the discreet tax benefit, the consolidated effective rate for the third quarter of Fiscal 2006 would have been approximately 30.9%. We believe the use of the effective tax rate less the effect for valuation allowance reversal provides investors with more useful information in which to benchmark against industry peers. The following table reconciles the statutory rate to the effective tax rate.

	<b>Three Months Ended July 29, 2006</b>
Statutory Rate	35.0%
Other items	<u>(4.1%)</u>
	30.9%
Valuation allowance reversal	<u>(99.4%)</u>
Effective tax rate	<u><u>68.5%</u></u>

Cash taxes paid for the third quarter of Fiscal 2006 were \$8.7 million, or 7.7% of pre-tax income, compared to \$2.0 million, or 4.1% of pre-tax income, in the third quarter of Fiscal 2005. This increase in cash taxes paid was primarily due to increased global profitability year over year.

#### **Nine Months Ended July 29, 2006 Compared to Nine Months Ended July 30, 2005**

##### ***Net Sales***

The following table sets forth the combined net sales included in our Condensed Consolidated Statement of Income:

<b>In thousands</b>	<b>Nine Months Ended</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>July 29, 2006</b>	<b>July 30, 2005</b>		
Underground Mining Machinery	\$1,028,796	\$ 800,489	\$ 228,307	29%
Surface Mining Equipment	<u>683,603</u>	<u>558,759</u>	<u>124,844</u>	22%
Total	<u><u>\$1,712,399</u></u>	<u><u>\$ 1,359,248</u></u>	<u><u>\$ 353,151</u></u>	26%

The increase in net sales for underground mining machinery in the Fiscal 2006 nine months compared with the Fiscal 2005 nine months was the result of a \$128.5 million, or 40%, increase in shipments of original equipment combined with a \$99.8 million, or 21%, increase in aftermarket products and service. Original equipment sales in the United States and Australia increased by over 50% during the Fiscal 2006 nine months. The increase in the United States was associated with increased shipments of continuous miners and shuttle cars of \$39.8 million, and the shipment of a roof support system in the first nine months of Fiscal 2006 not duplicated in the first nine months of Fiscal 2005. The increase in original equipment sales in Australia was associated with increased shipments of continuous miners and face conveyors of \$36.4 million. The increase in aftermarket sales in the Fiscal 2006 nine

months compared to the Fiscal 2005 nine months was the result of increased aftermarket sales in all of the underground business units ranging from approximately 16% in the United States to 34% in the emerging markets served out of the United Kingdom. The high utilization levels of equipment is reflected in the increase in aftermarket sales in each of the business locations.

The increase in net sales of surface mining machinery for the Fiscal 2006 nine months compared to the Fiscal 2005 nine months was due to a \$46.2 million, or 26%, increase in the shipment of original equipment and a \$78.7 million, or 21%, increase in aftermarket net sales. Original equipment sales more than doubled in Australia primarily related to sales of electric mining shovels. Original equipment sales also almost doubled in the United States and grew by 51% in Russia. These increases in sales more than offset the decrease in sales of original equipment in Canada of 68%, and Chile of 11%. The increase in aftermarket sales in the Fiscal 2006 nine months compared to the Fiscal 2005 nine months was primarily the result of increases of 38%, 27%, 25% and 15% for Canada, Australia, Chile and the United States, respectively.

### ***Operating Income***

The following table sets forth the operating income (loss) included in our Condensed Consolidated Statement of Income:

<u>In thousands</u>	<u>Nine Months Ended</u>			
	<u>July 29, 2006</u>		<u>July 30, 2005</u>	
	<u>Operating</u>	<u>Percent</u>	<u>Operating</u>	<u>Percent</u>
	<u>Income (loss)</u>	<u>of Net Sales</u>	<u>Income (loss)</u>	<u>of Net Sales</u>
Operating income (loss):				
Underground Mining Machinery	\$ 216,907	21.1%	\$ 121,469	15.2%
Surface Mining Equipment	116,023	17.0%	81,309	14.6%
Corporate Expense	(22,368)		(24,032)	
Total	<u>\$ 310,562</u>	18.1%	<u>\$ 178,746</u>	13.2%

Operating income as a percentage of net sales for underground mining machinery increased from 15.2% in the Fiscal 2005 nine months to 21.1% in the Fiscal 2006 nine months. The improvement in profitability was primarily due to a more profitable mix of original equipment net sales in the United States, Australia and emerging markets served out of the United Kingdom. Operating income was also positively affected by the absence in Fiscal 2006 of approximately \$5.0 million of legal expense incurred in the Fiscal 2005 nine months related to two arbitration proceedings which were concluded in the fourth quarter of Fiscal 2005.

Operating income as a percentage of net sales for surface mining equipment increased from 14.6% in the Fiscal 2005 nine months to 17.0% in the Fiscal 2006 nine months. This improvement in profitability was due to higher sales of original equipment and aftermarket parts and service and increased margins on original equipment and aftermarket parts and service. The improvement in profitability was also favorably impacted by a \$2.3 million gain on the sale of a facility in Australia, reduced by higher research and development spending of \$2.6 million, and reduced by costs associated with the upgrading of our SAP system and our previously announced capacity expansion.

### ***Product Development, Selling and Administrative Expense***

Product development, selling and administrative expense totaled \$234.8 million, or 14% of sales, in the Fiscal 2006 nine months, as compared to \$217.3 million, or 16% of sales, in the Fiscal 2005 nine months. While a lower percentage of total sales, the 8% increase in product development, selling and administrative expense was primarily

attributable to a \$8.5 million increase in selling expenses associated with increased sales levels and the development of emerging markets and inflation. The increased product development, selling and administrative expenses were partially offset by a reduction of approximately \$5.0 million of legal fees.

### ***Provision for Income Taxes***

Income tax expense for the Fiscal 2006 nine months decreased to a benefit of \$(9.3) million as compared to an expense of \$52.4 million for the Fiscal 2005 nine months. On a consolidated basis, these income tax provisions represented effective income tax rates for the Fiscal 2006 nine months and Fiscal 2005 nine months of (2.9)% and 36.6%, respectively. A review of deferred income tax assets was performed as part of the analysis of the third quarter Fiscal 2006 income tax provision and a discreet tax benefit of \$111.2 million was recorded relating to certain valuation allowances applicable to our U.S. deferred income tax assets. Additionally, the second quarter of Fiscal 2006 was also impacted by the reversal of approximately \$6.3 million of discreet tax benefits that were recorded relating to certain valuation allowances applicable to our Australian Group. On a recurring basis, the main drivers of the variance in tax rates both year-to-year and in relation to the U.S. statutory rate of 35% were the increased global profitability and mix of earnings year over year, differences in local statutory tax rates, and the projected impact of the utilization of certain U.S. state net operating loss carryforwards for which the reversal of the related valuation allowances will not be recognized as part of the income tax provision due to fresh start accounting.

Excluding the impact of the discreet tax benefits, the consolidated effective rate for the Fiscal 2006 nine months would have been approximately 33.8%. We believe the use of the effective tax rate less the effect for valuation allowance reversal provides investors with more useful information in which to benchmark against industry peers. The following table reconciles the statutory rate to the effective tax rate.

	<b>Nine Months Ended July 29, 2006</b>
Statutory Rate	35.0%
Other items	(1.2%)
	<u>33.8%</u>
Valuation allowance reversal	(36.7%)
Effective tax rate	<u>(2.9%)</u>

Cash taxes paid for the Fiscal 2006 nine months were \$28.0 million, or 8.7% of pre-tax income, compared to \$14.5 million, or 10.1% of pre-tax income, paid for the Fiscal 2005 nine months. This increase in cash taxes paid was primarily due to increased global profitability year over year.

### **Bookings and Backlog**

The bookings trend continued to be mixed for both original equipment and aftermarket products and service. During the third quarter of Fiscal 2006 and year to date, we received \$606 million and \$1,752 million, respectively, of new orders compared to new order bookings of \$536 million and \$1,638 million for the Fiscal 2005 third quarter



and year to date, respectively. Aftermarket products and service orders continued to trend upward year over year for the quarter and nine month periods by 17% and 19%, respectively, and were reflective of continued higher production levels on the part of our customers. Original equipment orders were up year over year for the quarter by 7% and down year over year for the nine month period by 9%. Original equipment order volatility continues to be the result of the changing United States industry as it moves from expansion of existing mines towards investment in new mine projects.

As a result of the strong level of aftermarket products and service new orders, backlog increased from \$1,055 million at the beginning of Fiscal 2006 to \$1,095 million at the end of the third quarter of 2006.

### **Liquidity and Capital Resources**

We currently use working capital and cash flow production as two financial measurements to judge the performance of our operations and our ability to meet our financial obligations.

The following table summarizes the major components of our working capital as of July 29, 2006 and October 29, 2005:

<b><u>In millions</u></b>	<b><u>July 29, 2006</u></b>	<b><u>October 29, 2005</u></b>
Cash and cash equivalents	\$ 102.1	\$ 143.9
Accounts receivable	417.5	351.5
Inventories	623.1	548.2
Other current assets	49.1	73.1
Short-term debt	(0.7)	(1.0)
Accounts payable	(156.6)	(160.6)
Employee compensation and benefits	(61.0)	(91.1)
Advance payments and progress billings	(183.6)	(187.7)
Accrued warranties	(38.9)	(34.2)
Other current liabilities	(104.0)	(124.9)
Working Capital	<u>\$ 647.0</u>	<u>\$ 517.2</u>

Our businesses continue to need working capital investment to maintain our position as the world's leading manufacturer and servicer of high productivity mining equipment. Our increase in working capital over the Fiscal 2006 nine months relates primarily to our increased sales and increased inventories. Inventory management will remain a focus as we forecast production schedules both for original equipment and repair parts in today's environment of significant lead times and full production schedules.

### ***Operating Activities***

During the Fiscal 2006 nine months cash provided by operations was \$146.0 million compared to \$82.3 million in the Fiscal 2005 nine months. The increase in cash was primarily a result of an increase in net income of \$239.4 million and a lower increase in inventory of \$30.7 million as compared to the Fiscal 2005 nine months. These

improvements were offset by a decrease in advanced payments collected of \$83.4 million related to the timing of orders, \$48.4 million in pension contributions affecting Fiscal 2005 and not duplicated in Fiscal 2006, and the non-cash nature of the reversal of post emergence valuation allowances of \$111.2 million.

### ***Investing Activities***

During the Fiscal 2006 nine months cash used by investing activities was \$23.0 million compared to \$24.8 million during the Fiscal 2005 nine months. For the Fiscal 2006 nine months, property, plant and equipment additions included approximately \$13.7 million primarily due to costs associated with the upgrading of the SAP system and the plant expansion of the Milwaukee facility. Proceeds from the sale of property, plant and equipment included \$4.9 million from the sale of facilities in the United States and Australia during the Fiscal 2006 nine months.

### ***Financing Activities***

During the Fiscal 2006 nine months cash used by financing activities was \$165.5 million compared to \$217.8 million used during the Fiscal 2005 nine months. The decrease in cash used by financing activities was due to approximately \$224.5 million used to repurchase our 8.75% Senior Subordinated Notes during the Fiscal 2005 nine months compared with \$234.1 million used to repurchase treasury stock during the Fiscal 2006 nine months, an additional \$16.7 million of dividends paid in the Fiscal 2006 nine months offset by the incremental borrowing of \$50.9 million of debt on our line of credit during the Fiscal 2006 nine months and the excess income tax benefit from the exercise of stock options of \$20.4 million in the Fiscal 2006 nine months. The adoption of FAS 123(R) caused the reclassification of the excess income tax benefits from the exercise of stock options from an operating activity inflow to a financing activity inflow.

In November 2005, we commenced purchases under our share repurchase program. Under the program, management is authorized to repurchase up to \$300 million in shares in the open market or through privately negotiated transactions over the 24-month period ending May 31, 2007. We have repurchased approximately \$197.0 million and \$234.0 million of common stock, representing 3,822,811 and 4,568,761 shares, under the program for the quarter and Fiscal 2006 nine months, respectively.

In addition to cash flows from operations, we have the ability to access additional financing sources through our unsecured credit facility.

In October 2005, we entered into a \$400 million unsecured revolving credit facility ("Credit Agreement"). Outstanding borrowings bear interest based on certain short term borrowing rates equal to LIBOR plus the applicable margin (0.50% to 1.25%) or the Base Rate (defined as the higher of the Prime Rate or the Federal Funds Effective Rate plus 0.50%), at our discretion. At July 29, 2006, there were \$76.0 million of outstanding direct borrowings under the Credit Agreement. The Credit Agreement requires the maintenance of certain financial covenants, including leverage, minimum net worth and capital expenditures. On July 29, 2006, we were in compliance with all financial covenants in the Credit Agreement.

During the quarter ended July 29, 2006, our credit rating was upgraded by both Standard and Poor's and Moody's. Standard and Poor's credit rating increased from BB+ to BBB- with an outlook of Stable. Moody's credit rating increased from Ba1 to Baa3 with a continued outlook of Stable. These higher credit ratings provide us with greater flexibility to access financing on the open market as our business circumstances justify.

During the Fiscal 2005 nine months, we purchased approximately \$200.0 million par value of our 8.75% Senior Subordinated Notes in a tender offer and several open market purchases. These transactions, which resulted in a \$29.2 million loss on repurchase, consisted of approximately \$224.5 million of cash and the writedown of

unamortized finance costs of \$4.7 million. Substantially all of these notes were purchased in Fiscal 2005 and subsequently cancelled.

On May 25, 2006, our Board of Directors declared a quarterly dividend in the amount of \$0.1125 per share to be paid on June 23, 2006 to shareholders of record on June 9, 2006.

### ***Financial Condition***

As of July 29, 2006, we had \$102.1 million in cash and cash equivalents and \$241.9 million available for borrowings under the Credit Agreement. Our primary cash requirements include working capital, capital expenditures, dividends and share repurchases. Our projected capital expenditures are between \$45 and \$55 million for Fiscal 2006 and in the range of 2% to 2.5% of net sales for Fiscal 2007. For the quarter and nine months ended July 29, 2006, we paid dividends of \$13.6 million and \$41.1 million, respectively. Based upon our current level of operations, we believe that cash flows from operations, together with available borrowings under the Credit Agreement, will be adequate to meet our anticipated future cash requirements.

On July 31, 2006, we completed the acquisition of the net assets of the Stamler mining equipment business from the Oldenburg Group, Inc. for approximately \$117 million in cash borrowed under our unsecured revolving credit facility. Stamler manufactures products used primarily in underground coal mining applications, including feeder breakers, battery haulers, and continuous haulage systems. The Stamler business is in line with our stated objectives of adding “bolt on” products and services to our existing businesses. We are currently evaluating purchase accounting adjustments related to the net assets purchased along with goodwill and other intangible assets.

### ***Off-Balance Sheet Arrangements***

We lease various assets under operating leases. No significant changes to lease commitments have occurred since our fiscal year ended October 29, 2005. We have no other off-balance sheet arrangements, other than those noted in Note 7 to the Condensed Consolidated Financial Statements.

### ***Recent Accounting Pronouncements***

See Note 14 in the Condensed Consolidated Financial Statements for discussion on recent accounting pronouncements.

### **Critical Accounting Estimates, Assumptions and Policies**

Our discussion and analysis of financial condition and results of operations is based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an ongoing basis, our estimates and judgments, including those related to bad debts, excess inventory, warranty, intangible assets, income taxes, and contingencies. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

We believe our accounting policies for revenue recognition, inventories, intangible assets, accrued warranties, pension and postretirement benefits and costs, and income taxes are the ones that most frequently require us to make estimates and judgments, and therefore are critical to the understanding of our results of operations. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations of our annual report on Form 10-K for the year ended October 29, 2005 for a discussion of these policies. There were no material changes to these policies during the nine months ended July 29, 2006 other than the adoption of SFAS 123(R).

Effective October 30, 2005, we adopted SFAS 123(R) using the modified prospective transition method. Prior to the adoption of SFAS 123(R), we accounted for share based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The fair value of certain share based payments is estimated at grant date using the Black Scholes valuation model.

As a result of adopting SFAS 123(R), we recorded a cumulative effect of a change in accounting principle related to the performance share award program. The cumulative effect of a change in accounting principle added \$1.6 million (net of taxes of \$0.8 million), or \$.01 a share, to net income for the nine months ended July 29, 2006. Under APB 25, we recorded share based payment expense related to performance share awards and restricted stock units. For performance share awards, we recorded compensation expense for changes in the market value of the underlying common stock. For restricted stock unit awards, we recorded compensation expense based on the grant date market value of the underlying common stock. As a result of adopting SFAS 123(R), our income from continuing operations before income taxes and net income for the nine months ended July 29, 2006, were \$1.1 million and \$0.8 million lower, respectively, than if we had continued to account for stock-based compensation under APB 25. The impact of adopting SFAS 123(R) did not have a material effect on basic and diluted earnings per share.

The total stock-based compensation expense we recognized for the three months and nine months ended July 29, 2006 was approximately \$2.5 million and \$6.6 million, respectively. As of July 29, 2006, we have remaining unrecognized expense related to share based payments of \$14.1 million, which we expect to recognize over a weighted average period of approximately 2.2 years. We estimate that our share based compensation expense for Fiscal 2006 will be \$8.8 million and is dependent on the share based payment programs awarded thus far in Fiscal 2006, the assumptions used in calculating the fair value of the awards using the Black Scholes model and the actual amount of forfeitures as compared to expected forfeitures upon issuance.

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

As more fully described in our Annual Report on Form 10-K for the year ended October 29, 2005, we are exposed to various types of market risks, primarily foreign currency risks. We monitor our risks in this area on a continuous basis and generally enter into forward foreign currency contracts to minimize these exposures for periods of less than one year. We do not engage in speculation in our derivative strategies. Gains and losses from foreign currency contract activities are offset by changes in the underlying costs of the transactions being hedged.

### **Item 4. Controls and Procedures**

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer

have concluded that, as of such date, our disclosure controls and procedures are effective (1) in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and (2) to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During the quarter ended April 29, 2006, we upgraded and implemented an SAP enterprise resource planning system in our North American Surface Mining based units. The implementation included an upgrade to the order taking process, and new inquiry to cash, financial control and reporting, human resources and payroll processes. We followed a system development life cycle process that required significant pre-implementation planning, design and testing. We have also conducted extensive post-implementation monitoring and process modifications to ensure the effectiveness of internal control over financial reporting. We are still in the process of testing both the general computer controls and application controls associated with SAP. There have been no other changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

See Item 3 – Legal Proceedings of Part I of our Annual Report on Form 10-K for the year ended October 29, 2005.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable
- (b) Not applicable
- (c) We made the following purchases of our common stock, par value \$1.00 per share, during the period covered by this report:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*</u>	<u>Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)*</u>
April 30, 2006 to May 29, 2006	1,186,105	\$59.19	1,186,105	\$188.0
May 30, 2006 to June 29, 2006	2,049,862	\$49.63	2,049,862	\$91.0
June 30, 2006 to July 29, 2006	586,844	\$42.57	586,844	\$66.0

\*All purchases were made under the stock repurchase plan announced on May 31, 2005, which authorized the repurchase of \$300 million in common stock through May 31, 2007

### Item 3. Defaults upon Senior Securities

Not applicable.

### Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

### Item 5. Other Information

Not applicable.

### ***Forward-Looking Statements and Cautionary Factors***

This report and other documents or oral statements we make or made on our behalf contain both historical and 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. Forward-looking statements are predictions and generally can be identified by use of statements that include phrases such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” or other words or phrases of similar import. Forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated. In addition to any factors that may accompany forward-looking statements, factors that could materially affect actual results include the following.

Our principal businesses involve designing, manufacturing, marketing and servicing large, complex machines. Significant periods of time are necessary to design and build these machines. Large amounts of capital must be devoted by our customers to purchase these machines and to finance the mines that use them. Our success in obtaining and managing a relatively small number of sales opportunities, including our success in securing payment for such sales and meeting the requirements of warranties and guarantees associated with such sales, can affect our financial performance. In addition, many mines are located in undeveloped or developing economies where business conditions are less predictable. In recent years, up to 55% of our total sales were derived from sales outside the United States.

Additional factors that could cause actual results to differ materially from those contemplated include:

Factors affecting our customers’ purchases of new equipment, rebuilds, parts and services such as: production capacity, stockpiles, selling prices and production and consumption rates of coal, copper, iron ore, gold, oil sands and other ores and minerals; the cash flows and capital expenditures of our customers; the cost and availability of financing to our customers and their ability to obtain regulatory approval for investments in mining projects; consolidations among customers; changes in environmental regulations; work stoppages at customers or providers of transportation; and the timing, severity and duration of customer buying cycles.

Factors affecting our ability to capture available sales opportunities, including: our customers’ perceptions of the quality and value of our products and services as compared to our competitors’ products and services; our ability to commit to delivery schedules targeted by our customers; whether we have successful reference installations to display to customers; customers’ perceptions of our financial health and stability as compared to our competitors; our ability to assist customers with competitive financing programs; the availability of steel, castings, forgings, bearings and other materials; and the availability of manufacturing capacity at our factories.

Factors affecting general business levels, such as: political and economic turmoil in major markets such as the United States, Australia, Brazil, Canada, Chile, China, Europe, India, Indonesia, Peru, Poland, Russia, South Africa and Venezuela; environmental and trade regulations; commodity prices; and the stability and ease of exchange of currencies.

Factors affecting our ability to successfully manage and complete sales we obtain, such as: the successful transition to a new enterprise software system at our surface mining equipment business; the accuracy of our cost and time estimates for major projects and long-term maintenance and repair contracts; the adequacy of our systems to manage major projects and our success in completing projects on time and within budget; our success in recruiting and retaining managers and key employees; wage stability and cooperative labor relations; the timely renegotiation of expiring collective bargaining agreements with our unionized workers; plant capacity and utilization; and whether acquisitions are assimilated and divestitures completed without notable surprises or unexpected difficulties.

Factors affecting our general business or financial position, such as: unforeseen patent, tax, product (including asbestos-related and silicosis liability), environmental, employee health and benefits, or contractual liabilities; changes in pension and post-retirement benefit costs; nonrecurring restructuring and other special charges; changes in accounting or tax rules or regulations; reassessments of asset valuations for such assets as receivables, inventories, fixed assets, intangible assets and deferred tax assets; and leverage and debt service.

**Item 6. Exhibits**

10.1 Form of Stock Option Agreement entered into as of May 1, 2006 between Joy Global Inc. and Edward L. Doheny II.

10.2 Form of Restricted Stock Unit Award Agreement entered into as of May 1, 2006 between Joy Global Inc. and Edward L. Doheny II.

10.3 Form of Performance Share Agreement entered into as of May 1, 2006 between Joy Global Inc. and Edward L. Doheny II.

31.1 Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certifications

31.2 Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certifications

32 Section 1350 Certifications



## **SIGNATURES**

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

JOY GLOBAL INC.  
(Registrant)

/s/ Donald C. Roof

Date September 1, 2006

Donald C. Roof  
Executive Vice President,  
Chief Financial Officer,  
and Treasurer

/s/ Michael S. Olsen

Date September 1, 2006

Michael S. Olsen  
Vice President and  
Chief Accounting Officer