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Career Education Corp. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

And your first question comes from the line of Amy Junker - Robert W. Baird.

Amy Junker - Robert W. Baird

I'm trying to understand, the reps that you cut or laid off, can you give us the confidence that this isn't what's impacting starts; that perhaps you cut too deeply there? Just to make us feel a little better about that.

Gary McCullough

Amy, that's a good question. In fact, as we've gone through a lot of the data that's been presented to us in digging into the issues, I've asked that very same question.

The fact is, as we looked across the organization, we had quite a number of reps that weren't as productive as we felt they should be. One of the things that's happened culturally is, given some of the challenges that we've had in the past, there has not been in some cases the proactivity or the aggressiveness that doesn't cross the line with our representative force.

We had representatives that frankly were unproductive, and the reality is that the remaining representatives that we have, with the changes we've made, they've become much more productive. We've seen across-the-board, increases in their productivities.

But it's a question that I've asked. It's a question that we're evaluating, but we don't believe, given what we're seeing, that that's the case at this point in time. I wouldn't hesitate to add back if we felt that was the right thing to do for the business.

You can't cut your way to glory. That's not what we're trying to do here. We're trying to make sure that we have processes that are smart processes, that are efficient processes, and we'll build back from those. And again, if it's necessary, we would add back, but we don't see the need today.

Amy Junker - Robert W. Baird

Great, and then just one other question. Mike, on the bad debt, that was a good level this quarter. Are you anticipating that that's going to go up? I know you're going to be internally funding less than you'd originally previously anticipated, but should we expect that that level will probably drift back up through the remainder of the year?

Michael Graham

I would think so. Because the balances for the students, both the serial loans and the originated loans in the second quarter, students will continue to build a receivable balance on their ledgers as they take more courses. As we add those loans and they grow, we'll be applying that 44%. So the rate will tick up as we go forward.

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