WellQuest Medical & Wellness Corporation

Quarterly Report for the Fiscal Quarter Ended

September 30, 2016

FORWARD-LOOKING STATEMENTS

This Quarterly Report of WellQuest Medical & Wellness Corporation contains forward-looking statements, particularly those identified with the words, “anticipates,” “believes,” “expects,” “plans,” “intends,” “objectives” and similar expressions. These statements reflect management's best judgment based on factors known at the time of such statements. The reader may find discussions containing such forward-looking statements in the material set forth under “Legal Proceedings” and “Management's Discussion and Analysis of Financial Condition and Results of Operations,” generally, and specifically therein under the captions “Liquidity and Capital Resources” as well as elsewhere in this Quarterly Report. Actual events or results may differ materially from those discussed herein.

Item I. Exact name of the issuer and the address of its principal executive offices.

The exact name of the issuer is WellQuest Medical and Wellness Corporation. We were incorporated in the state of Oklahoma on November 8, 2004. We incorporated a wholly owned subsidiary in the State of Arkansas on May 5, 2005 as WellQuest Medical & Wellness Centers of Arkansas, Inc., which was subsequently re-registered as WellQuest of Arkansas, Inc. We formed WellQuest of Tulsa, LLC in March 2012, which is 65% owned by us. We incorporated WellQuest of Oklahoma, Inc., a wholly owned subsidiary, in the state of Oklahoma on March 5, 2013. WellQuest of Oklahoma, Inc. employs all employees for sites in Oklahoma.

The address of the issuer’s principal executive offices is as follows:
3400 SE Macy Rd., Suite 18
Bentonville, Arkansas 72712
Phone: (479) 845-0880
Fax: (479) 845-0887
Website: www.wellquestmedical.com

Item II. Shares Outstanding

The following sets forth certain information concerning our authorized and outstanding shares of common and preferred stock as of September 30, 2016:

Common Stock
No. of shares authorized: 150,000,000
No. of shares outstanding: 36,058,201
Freely tradable shares (public float): 5,881,048
Total number of record holders: 36

Preferred Stock – Series A
No. of shares authorized: 75,000
No. of shares outstanding: 24,390
Freely tradable shares (public float): 0
Total number of record holders: 11

WELLQUEST MEDICAL & WELLNESS CORPORATION

ITEM III. Financial Statements

Consolidated Balance Sheets
(Unaudited)

	September 30 2016	December 31 2015
Assets		
Current assets:		
Cash	$ 22,760	$ 23,401
Accounts receivable, less allowance of $475,342 and $422,059 at September 30, 2016 and December 31, 2015, respectively	344,613	298,125
Other current assets	135,907	199,949
Total current assets	503,280	521,475
Property and equipment, net	2,616,669	2,713,342
Deferred financing costs, net of accumulated amortization of $19,941 and $14,197 at September 30, 2016 and December 31, 2015, respectively	89,601	95,344
Other assets	2,730	2,730
Total assets	$ 3,212,280	$ 3,332,891
Liabilities and Deficit		
Current liabilities:		
Accounts payable	$ 414,803	$ 394,400
Accrued liabilities	887,002	562,582
Due to physicians and related parties	278,785	234,778
Current maturities of long-term debt	2,452,139	2,503,767
Current maturities of long-term debt – related parties	74,576	44,576
Current obligations under capital leases	24,378	15,404
Current maturities of subordinated debentures	191,500	191,500
Total current liabilities	4,323,183	3,947,007
Long-term debt, less current portion	1,046,518	1,129,180
Long-term obligations under capital leases, less current portion	86,338	81,231
Long-term subordinated debentures, less current portion	76,413	-
Total liabilities	5,532,452	5,157,418
WellQuest Medical & Wellness Corporation stockholders' deficit:		
Preferred stock - $0.01 par value; authorized 2,500,000 shares, 75,000 shares designated as Series A convertible preferred stock; 24,390 shares issued and outstanding at September 30, 2016 and December 31, 2015	244	244
Common stock - $0.001 par value; authorized 150,000,000 shares; 36,058,201shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	35,788	35,788
Additional paid-in capital	2,240,007	2,235,172
Warrants outstanding	30,000	30,000
Accumulated deficit	(4,518,013)	(4,133,242)
Total WellQuest Medical & Wellness Corporation stockholders' deficit	(2,211,974)	(1,832,038)
Non-controlling interest	(108,198)	7,511
Total deficit	(2,320,172)	(1,824,527)
Total liabilities and deficit	$ 3,212,280	$ 3,332,891

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenue	$ 1,239,439	$ 1,422,682	$ 4,058,088	$ 4,458,270
Operating expenses:				
Salaries, wages and benefits	480,792	554,352	1,483,192	1,665,810
Rents and facility expenses	96,033	108,703	282,850	302,941
Medical direct expenses, excluding salaries, wages and benefits	604,711	704,563	1,972,964	2,067,436
Aesthetics direct expenses, excluding salaries, wages and benefits	49,205	58,468	174,066	198,340
General corporate expenses	104,442	103,004	290,382	377,524
Depreciation and amortization	52,853	53,675	156,114	160,129
Total operating expenses	1,388,036	1,582,765	4,359,568	4,772,180
Operating loss	(148,597)	(160,083)	(301,480)	(313,910)
Interest expense	(59,114)	(57,534)	(201,651)	(175,660)
Loss before preferred returns	(207,711)	(217,617)	(503,131)	(489,570)
Preferred returns	(15,528)	(14,531)	(45,396)	(43,592)
Loss before income taxes	(223,239)	(232,148)	(548,527)	(533,162)
Provision for income taxes – current	(1,849)	(16,182)	(1,849)	(16,182)
Net loss	(225,088)	(248,330)	(550,376)	(549,344)
Loss attributable to non-controlling interest	67,454	66,342	165,605	151,257
Net loss applicable to common stock of WellQuest Medical & Wellness Corporation	$ (157,634)	$ (181,988)	$ (384,771)	$ (398,087)
Loss per common share:				
Basic and diluted	$ (0.004)	$ (0.005)	$ (0.011)	$ (0.011)
Weighted average number of common shares outstanding:				
Basic and diluted	36,058,201	35,865,606	36,058,201	36,028,325

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Statement of Deficit

For the nine months ended September 30, 2016
(Unaudited)

	Common Stock		Series A Convertible Preferred		Additional Paid-in		Accumulated	Non-Controlling	Total
	Shares	$	Shares	$	Capital	Warrants	Deficit	Interest	Deficit
Balance, December 31, 2015	36,058,201	$ 35,788	24,390	$ 244	$ 2,235,172	$ 30,000	$ (4,133,242)	$ 7,511	$ (1,824,527)
Net loss	-	-	-	-	-	-	(384,771)	(165,605)	(550,376)
Capital contributions	-	-	-	-	-	-	-	49,896	49,896
Stock-based compensation	-	-	-	-	4,835	-	-	-	4,835
Balance, September 30, 2016	36,058,201	$ 35,788	24,390	$ 244	$ 2,240,007	$ 30,000	$ (4,518,013)	$ (108,198)	$ (2,320,172)

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2016 and 2015
(Unaudited)

	2016	2015
Cash Flows from Operating Activities		
Net loss	$ (550,376)	$ (549,344)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	156,114	160,129
Preferred returns	45,396	43,592
Amortization of deferred financing costs	5,744	5,743
Stock based compensation	4,835	22,057
Provision for uncollectible accounts	53,283	-
Change in assets and liabilities:		
Accounts receivable, net	(99,788)	192,228
Other current assets	64,060	(5,477)
Other assets	-	(250)
Accounts payable and accrued liabilities	299,425	90,048
Due to physicians and related parties	44,008	24,621
Net cash provided by (used in) operating activities	22,701	(16,653)
Cash Flows from Investing Activities		
Purchases of property and equipment	(59,442)	(18,063)
Cash Flows from Financing Activities		
Repayment of long-term borrowings and obligations under capital leases	(120,209)	(88,244)
Capital contributions	49,896	-
Borrowings on subordinated debentures	76,413	-
Borrowings on long-term debt	-	148,401
Borrowings on related party long-term debt	30,000	-
Net cash provided by financing activities	36,100	60,157
Net increase (decrease) in cash	(641)	25,441
Cash, beginning of period	23,401	14,589
Cash, end of period	$ 22,760	$ 40,030
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 146,851	$ 179,735
Cash paid for income taxes	$ 7,353	$ 4,293

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

1. ***Organization and Business Description and Management's Plans***

WellQuest Medical & Wellness Corporation ("WellQuest") was incorporated in the state of Oklahoma in November 2004. WellQuest's wholly owned subsidiary, WellQuest of Arkansas, Inc. ("WellQuest of Arkansas"), was incorporated in the state of Arkansas in May 2005 and WellQuest's majority owned subsidiary, WellQuest of Tulsa, LLC ("WellQuest of Tulsa"), was formed in the state of Oklahoma in March 2012. We incorporated WellQuest of Oklahoma, Inc., a wholly owned subsidiary, in the state of Oklahoma on March 5, 2013.

WellQuest delivers an integrated model of primary medical care, preventive/wellness services and medical aesthetics in upscale facilities located in high-traffic retail corridors. The delivery site is titled "WellQuest Medical Clinic and Aesthetics," a trademarked business name. The WellQuest concept combines a customer-service oriented medical treatment facility for interventional care with programmed preventive services and products that lead clients in the quest for wellness. The facility also houses an advanced medical Aesthetics for skincare services and retail products. WellQuest currently operates two facilities, one in Bentonville, Arkansas and the second in Tulsa, Oklahoma.

Management's Plans

During 2014 and 2015, the Company utilized significant funds from bank loans and operations at its Northwest Arkansas facility to fund operations at the Tulsa facility. Although, management believes the available funds on the working capital loan will be sufficient to fund operations at the Tulsa facility, the Company could require additional financial resources. The Company is currently employing the following strategic initiatives to drive awareness of our service offerings in that market:

- Marketing efforts have been implemented across multiple social media platforms.
- Partnerships have been formed with Tulsa area health food stores and exercise facilities.
- The Company is working with Tulsa area businesses to provide occupational medicine, and corporate wellness solutions.

The Company is implementing additional revenue sources such as allergy services, hormone replacement services, diagnostic testing services, advanced lab services and telemedicine.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of WellQuest, WellQuest of Arkansas, Northwest Arkansas Primary Care Physicians, P.A., Arkansas Medical & Wellness, P.A., WellQuest of Tulsa, LLC, Primary Care Physicians of Tulsa Region, P.C. and WellQuest of Oklahoma, Inc. (collectively, the "Company").

Arkansas Medical & Wellness, P.A.

On September 1, 2014, WellQuest of Arkansas entered into a Management and Medical Services Agreement with Arkansas Medical & Wellness, P.A. ("AMWPA") pursuant to which AMWPA was granted exclusive rights to operate medical practices in the current center and all future sites that WellQuest of Arkansas might open in Northwest Arkansas. As a result, AMWPA is responsible for hiring all physicians, physician's assistants, and nurse practitioners who operate in the medical clinic. The proceeds from AMWPA are assigned to WellQuest of Arkansas. From those proceeds, WellQuest of Arkansas pays the compensation of the employees of AMWPA and all expenses associated with the operations of AMWPA. WellQuest of Arkansas receives a monthly management fee of 7.5% of AMWPA's net revenues and a monthly billing and collections fee of 6% of the AMWPA's net revenues. After all practice loans and interest are repaid in full, WellQuest of Arkansas receives a share of any practice operating profits after physician compensation and all practice operating expenses are paid. Any remaining profits were paid to AMWPA.

WellQuest determined that AMWPA qualified for consolidation, as WellQuest was the primary beneficiary of the operations of the clinic after physician compensation pursuant to the terms of the management agreement. As a result, the operations of the clinic, primarily clinic revenues and expenses, were consolidated into WellQuest for financial statement reporting purposes until termination of the management agreement. All significant intercompany accounts and transactions have been eliminated upon consolidation.

WellQuest of Tulsa, LLC

During 2012, the Company sold 2,500 Class B membership units to unrelated investors, which constituted 25% ownership of WellQuest of Tulsa, for $660,072. The 25% minority stake in WellQuest of Tulsa is accounted for as a non-controlling interest on the balance sheet and the statements of operations. All significant intercompany accounts and transactions have been eliminated upon consolidation.

During 2014, $66,457 was received from Class B investors. These funds were used to fund operations at the Company's Tulsa facility.

In April 2016, $49,896 was received from Class B investors. These funds were used to fund operations at the Company's Tulsa facility.

The operating agreement for WellQuest of Tulsa expires on September 30, 2016 unless earlier terminated pursuant to the terms of the agreement. Thereafter, the operating agreement renews automatically for successive two year terms unless any party gives written notice of its intent not to renew at least 90 days prior to the expiration of the then current term.

On October 22, 2013, the board of directors of WellQuest approved a unanimous consent to grant Steve Swift, President and CEO 600 Class A membership units and Curtis Rice, Vice President 400 Class A membership units in WellQuest of Tulsa from the membership units owned by WellQuest. The membership units granted represent 10% of the total membership units outstanding for WellQuest of Tulsa. A value of $1,000 was placed on the membership units granted. The value of the Class A membership units were significantly discounted compared to the value of the Class B membership units sold to unrelated parties due to factors including, but not limited to, the following:

- Class A members rights to liquidation and distribution proceeds are subordinate to the Class B members.
- Class B members are entitled to receive cumulative non-compounding return in preference to Class A members at an annual rate of 8% as discussed below.
- Class B members receive 95% of WellQuest of Tulsa distributions until such time as 120% of their investment has been returned.

In accordance with the membership agreements, the Class B members are entitled to receive a cumulative, non-compounding return in preference to Class A members at a rate of 8% per annum paid on the unreturned portion of their investment ("preferred return"). Therefore, approximately $229,000 of preferred returns have been accrued as of September 30, 2016.

Primary Care Physicians of Tulsa Region, P.C.

WellQuest of Tulsa entered into a Management and Medical Services Agreement with Primary Care Physicians of Tulsa Region, P.C. ("PCP of Tulsa") pursuant to which PCP of Tulsa was granted exclusive rights to operate the medical practice in the current center in Tulsa, Oklahoma. As a result, PCP of Tulsa is responsible for hiring all physicians, physician's assistants, and nurse practitioners who operate in the medical clinic. The proceeds from the practice are assigned to WellQuest of Tulsa. From those proceeds, WellQuest of Tulsa pays the compensation of the employees of PCP of Tulsa and all expenses associated from the conduct of the practice. WellQuest receives a monthly management fee of 7.5% of the practice's net revenues, a monthly medical billing and collections fee of 6% of the practice's net collections, and after all practice loans and interest are repaid in full, receives a performance bonus as a share of any practice operating profits after physician compensation and all practice operating expenses are paid. Any remaining profits are paid to PCP of Tulsa.

WellQuest determined that PCP of Tulsa qualifies for consolidation, as WellQuest of Tulsa is the primary beneficiary of the operations of the clinic after physician compensation pursuant to the terms of the management agreement and WellQuest of Tulsa is a majority owned subsidiary of WellQuest. As a result, the operations of the clinic, primarily clinic revenues and expenses, were consolidated into WellQuest for financial statement reporting purposes. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Because the accounts of PCP of Tulsa are consolidated with WellQuest, loans to fund PCP of Tulsa's operating losses are eliminated and reported as expenses in the consolidated financial statements. Operating profits of PCP of Tulsa used to reduce its debt to WellQuest are eliminated and reported as operating profits in the consolidated financial statements. For each period presented, PCP of Tulsa's profits paid or payable to its owners are reported as physician compensation in clinic direct expenses.

2. *Basis of Presentation*

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain information in footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to these principles. The accompanying unaudited interim consolidated financial statements reflect all adjustments which the Company considers necessary for a fair presentation of the results of operations for the interim periods covered and for the financial condition of the Company at the date of the interim balance sheet. All such adjustments are of a normal recurring nature.

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year. It is suggested that the December 31, 2015 financial information contained in the Company's Annual Report filed with Pink OTC Markets be read in conjunction with the financial statements and notes hereto.

3. *Summary of Significant Accounting Policies*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable and collectability is reasonably assured.

Net revenue of the Company is comprised of net clinic revenue and revenue derived from the sales of aesthetics services and related products. Net clinic revenue is recorded at established rates reduced by provisions for doubtful accounts and contractual adjustments. Contractual adjustments arise as a result of the terms of certain reimbursement and managed care contracts. Such adjustments represent the difference between charges at established rates and estimated recoverable amounts and are recognized in the period the services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are recognized in the year the settlements are determined.

Aesthetic revenues are recognized at the time of sale, as this is when the services have been provided or, in the case of product revenues, delivery has occurred, and aesthetics receives the customer's payment. Revenues from pre-paid purchases are also recorded when the customer takes possession of the merchandise or receives the service. Pre-paid purchases are defined as either gift cards or series sales. Series sales are the purchase of a series of services to be received over a period of time. Pre-paid purchases are recorded as a liability until they are redeemed. Pre-paid purchases expire two years from the date of the customer's purchase.

Deferred Financing Costs

Deferred financing costs incurred in association with the issuance of debt are amortized over the life of the corresponding loan. Amortization of $5,744 and $5,743 was recorded during the nine months ended September 30, 2016 and 2015, respectively, and is reflected as interest expense.

Earnings Per Share

The Company calculates and discloses Basic and Diluted EPS on the face of the statements of operations and provides a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

In computing Diluted EPS, only potential common shares that are dilutive — those that reduce earnings per share or increase loss per share — are included. Exercise of options and warrants or conversion of convertible securities is not assumed if the result would be antidilutive, such as when a loss from continuing operations is reported. The "control number" for determining whether including potential common shares in the Diluted EPS computation would be antidilutive is income from continuing operations. As a result, if there is a loss from continuing operations, Diluted EPS would be computed in the same manner as Basic EPS, even if an entity has net income after adjusting for discontinued operations, an extraordinary item or the cumulative effect of an accounting change. The Company incurred a loss from continuing operations for the three and nine months ended September 30, 2016 and 2015. Therefore, Basic and Diluted EPS are computed in the same manner for those periods.

Antidilutive and/or nonexercisable warrants, convertible preferred stock, convertible subordinated debentures, and unexercised stock options represent approximately 12,900,000 common shares at September 30, 2016, which may become dilutive in future calculations of EPS.

Share-Based Payment

In calculating the value of shares issued for goods or services received in a share-based payment transaction with nonemployees, the Company considers whether the fair value of the goods or services is more reliably measurable than the fair value of the equity instruments issued. If the fair value of the goods or services is more reliably measurable than the equity instruments issued, then the fair value of the goods or services received shall be used to measure the transaction. In contrast, if the fair value of the equity instruments issued in a share-based payment transaction with nonemployees is more reliably measurable than the fair value of the consideration received, the transaction shall be measured based on the fair value of the equity instruments issued. We utilized the fair value of the equity instruments issued to nonemployees to value the shares issued. We recognize the fair value of stock-based compensation awards to employees in general corporate expense in the consolidated statements of operations on a straight-line basis over the vesting period.

4. *Income Taxes*

The Company had a current income tax provision for the three and nine months ended September 30, 2016 of $1,849 for taxes owed to the state of Oklahoma. The Company had a current income tax provision for the three and nine months ended September 30, 2015 of $16,182 due primarily to the expiration of all remaining Arkansas net operating loss carryforwards prior to the 2014 tax year. Prior to 2014, the Arkansas net operating loss carryforwards were utilized to offset WellQuest of Arkansas net income.

The Company had no current income tax provision for the three and nine months ended September 30, 2016 due to approximately $3 million in net operating loss carryforwards for federal income tax purposes, which are available to reduce future taxable income and will expire beginning in 2025, if not utilized. The effective income tax rate for the three and nine months ended September 30, 2016 differs from the U.S. federal statutory rate of 34% due to the change in the valuation allowance.

Based upon a review of its income tax positions, the Company believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. The Company recognizes interest related to income taxes as interest expense and penalties as operating expenses. Prior tax years that remain subject to examination include 2013, 2014 and 2015.

5. *Incentive Stock Plan*

On April 4, 2008, the stockholders of the Company adopted the WellQuest Medical and Wellness Corporation 2008 Incentive Stock Plan (the 2008 Plan).

The purpose of the 2008 Plan is to further the growth and development of the Company by providing, through ownership of stock of the Company, an incentive to officers and other key personnel who are in a position to contribute materially to the prosperity of the Company including, but not limited to, all salaried personnel of the Company, to increase such persons' interests in the Company's welfare, to encourage them to continue their services to the Company, and to attract individuals of outstanding ability to enter the employment of the Company. The 2008 Plan authorizes the issuance of 15,000,000 shares of the Company's common stock.

On May 8, 2013, the Company granted stock options for 100,000 shares of stock at an exercise price of $0.026 per share. These options were forfeited in December 2015.

On May 14, 2014, The Company granted stock options for 1,175,000 shares of stock at an exercise price of $0.056 per share. The options are subject to a vesting schedule as follows: 800,000 options on May 14, 2014; 121,667 options on May 14, 2015; 121,667 options on May 14, 2016 and 121,667 options on May 14, 2017. The options have a termination date of May 14, 2024. Compensation expense was calculated at $65,240, of which $44,800 was recognized immediately and the remaining $20,440 will be recognized over the vesting period. In December 2015, 100,000 options from this grant were forfeited. The amount expensed in the nine months ended September 30, 2016 related to these options was a $3,850. Remaining compensation expense is $2,994 and will be recognized in 2016 and 2017. The Company has reserved 1,075,000 shares of common stock for the exercise of these options.

On February 18, 2015, The Company granted stock options for 750,000 shares of stock at an exercise price of $0.028 per share. The options are subject to a vesting schedule as follows: 500,000 options on February 18, 2015; 83,333 options on February 18, 2016; 83,333 options on February 18, 2017 and 83,334 options on February 18, 2018. The options have a termination date of February 18, 2025. Compensation expense was calculated at $21,000, of which $14,000 was recognized immediately and the remaining $7,000 will be recognized over the vesting period. In December 2015, 100,000 options from this grant were forfeited. The amount expensed in the nine months ended September 30, 2016 related to these options was a $975. Remaining compensation expense is $1,711 and will be recognized in 2016 through 2018. The Company has reserved 650,000 shares of common stock for the exercise of these options.

6. *Long-Term Debt*

On September 14, 2012, the Company obtained a loan from a bank to purchase land, construct a new facility in Tulsa, Oklahoma and purchase equipment for the new facility. On August 13, 2014, the Small Business Administration (the "SBA") assumed $1,057,000 of the loan balance from the bank. The maturity date of the SBA loan is August 1, 2034. The SBA loan bears interest at 2.9% and requires monthly payments of $7,283 in years one through five, $6,992 in years six through ten, $6,657 in years eleven through 15 and $6,268 in years 16 through 20. On September 1, 2015, the Company began paying monthly principal and interest payments of $8,119 on the loan with the bank. The loan with the bank matures in January 2029 and bears interest at 5.75%. At September 30, 2016, the balance on the loan with the bank was $1,451,964 and the balance on the SBA loan was $972,516. Additionally, the loan with the bank requires the Company to maintain a debt service coverage ratio of 1.25 to 1. As of September 30, 2016, the Company was not in compliance with the debt service coverage ratio. The Company obtained a written waiver of said covenant from the bank through December 31, 2015; therefore, the loan with the bank is included in current liabilities at September 30, 2016.

The loans above are collateralized by substantially all of WellQuest of Tulsa's assets and a personal guarantee by Steve Swift, President and CEO and guarantees by WellQuest Medical & Wellness Corporation and WellQuest of Arkansas.

On May 14, 2012, the Company obtained a note payable from a bank for $350,000. The proceeds of the note payable were primarily used to pay off the Company's previous revolving line of credit and a prior note payable with a bank. The loan bears interest at 6%, requires a monthly payment of $5,114, which includes principal and interest, and matures May 14, 2019. The loan is collateralized by essentially all of the Company's assets and is guaranteed by the Company's CEO and majority stockholder. At September 30, 2016, the balance on this note was $169,246.

On July 3, 2013, WellQuest of Tulsa obtained a note payable from a bank for $800,000 to be used for working capital. On August 3, 2014, the bank increased the amount available to borrow on this note to $980,000. The Company has used this loan to fund operations for the Tulsa facility during its start-up phase. The SBA guarantees 75% of the loan balance. The maturity date of the loan is January 3, 2022 and the loan bears interest at 6% per year. On August 1, 2015, the loan began requiring monthly principal and interest payments of $15,248. Additionally, the loan requires the Company to maintain a debt service coverage ratio of 1.25 to 1. As of September 30, 2016, the Company was not in compliance with the debt service coverage ratio. The Company obtained a written waiver of said covenant from the bank through December 31, 2015; therefore, the loan with the bank is included in current liabilities at September 30, 2016. The loan is collateralized by third interests in substantially all of WellQuest of Tulsa's assets and a personal guarantee by the Company's CEO and guarantees by WellQuest Medical & Wellness Corporation and WellQuest of Arkansas. Additionally, the loan requires WellQuest of Tulsa to carry a life insurance policy on the Company's CEO in the amount of $800,000 with the lender designated as the beneficiary. At September 30, 2016, the balance on this note was $904,931.

During 2014, the Company obtained two loans from a financing company totaling $38,855 to purchase a digital sign for the Tulsa facility and computer equipment. At September 30, 2016, the two loans had a total outstanding balance of $25,477.

Related Parties

During 2012, the Company converted payables to the Company's CEO and majority stockholder totaling $34,476 to a note payable. The note payable bears interest at 7% and matured December 31, 2015. The note payable does not require specified monthly payments. During 2014, the Company made payments totaling $15,000 on the note payable. During 2016, the Company borrowed $30,000 on the note payable. At September 30, 2016, the balance on this note was $49,076. The Company is currently working to extend the maturity date of this note payable and expects the maturity date to be extended under similar terms.

During 2013, the Company borrowed $25,500 from its Vice President. The amount borrowed is payable on demand and bears interest at 7%. No payments have been made on the amount borrowed during 2016 or 2015.

Subordinated Debentures Payable to Stockholders

In 2006 and 2007, the Company issued convertible debentures with detachable warrants to certain stockholders. These debentures bear interest at the fixed rate of 10% per annum, and shall be paid in arrears on a quarterly basis. Pursuant to the debenture agreements, the holders had the option to either exercise the warrants or convert the debentures. As of September 30, 2016, the Company has subordinated convertible debentures outstanding of $125,000. The maturity date for one of the remaining debentures was June 30, 2015 and the other two were December 31, 2015. The Company is currently working to extend the maturity date of these debentures and expects the maturity dates to be extended under similar terms.

The rights of the holders under the remaining outstanding debentures to collect the amounts due are subordinated to the rights of the banks owed as identified under Long-Term Debt. The holders of $75,000 of these debentures may convert the debt into shares of the Company's series A convertible preferred stock at the option of the holder at any time after the date of issuance. No partial conversions of the debentures are allowed. The conversion price is $22.22 per share, subject to adjustment pursuant to the terms of the debenture agreement. The holder of $50,000 of these debentures may convert the debt into shares of the Company's common stock at the option of the holder at any time after the date of issuance. No partial conversions of the debentures are allowed. The conversion price is $22.22 per share, subject to adjustment pursuant to the terms of the debenture agreement.

During 2014, the Company issued to two members of the Company's board of directors convertible debentures totaling $28,000. These funds are to be used for operations. Interest incurred on the debentures is 10% and the debentures matured December 31, 2014. In accordance with the debenture agreements, the debentures are convertible to common stock at the option of the holder at any time after the date of issuance. The conversion rate is based on the last sale price of the Company's common stock on the date of conversion. On July 1, 2014, the debenture holders converted $21,500 to 1,194,445 shares of common stock in accordance with the debenture agreements. At September 30, 2016, the balance on these debentures was $6,500. In January 2015, the maturity date of these debentures was extended to December 31, 2015. The Company is currently working to extend the maturity date of these debentures and expects the maturity date to be extended under similar terms.

During 2014, WellQuest issued to a member of the Board of Directors a convertible debenture for $60,000. These funds are to be used for operations. Interest incurred on the debenture is 10% and the debenture matured December 31, 2015. In accordance with the debenture agreement, the debenture is convertible to common stock at the option of the holder at any time after the date of issuance. The conversion rate shall be $0.08888. The Company is currently working to extend the maturity date of this debenture and expects the maturity date to be extended under similar terms.

In April 2016, WellQuest issued to WellQuest of Tulsa Class B members convertible debentures totaling $76,413. These funds were used for operations. Interest incurred on these debentures is 5% and the debentures mature December 31, 2017. In accordance with the debenture agreements, the debentures are convertible to common stock at the option of the holder at any time after the date of issuance. The conversion rate shall be $0.07.

7. Lease Commitments

On May 1, 2015, the Company renewed the lease for the Bentonville facility. The lease commenced on September 1, 2015 and expires on September 30, 2021. From September 1, 2015 through September 30, 2018, the monthly lease payment will be $13,968 per month and from October 1, 2018 through September 30, 2021, the monthly lease payment will be $15,365 per month.

On October 21, 2015, the Company entered into a capital lease with a total value of $96,635. These funds were used to purchase new IT infrastructure, medical equipment and leasehold improvements. The lease requires monthly payments of $2,092 for 60 months and contains a $1 purchase option at the end of the lease term. The lease is guaranteed by the Company's CEO and Vice President. At September 30, 2016, the outstanding balance under the capital lease obligation was $85,239.

8. Subsequent Events

Management has evaluated subsequent events through November 14, 2016, the date the financial statements were available to be issued.

Item IV. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. Those statements include statements regarding the intent, belief or current expectations of us and members of our management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made by us in this report. The following Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company should be read in conjunction with the Consolidated Financial Statements and notes related thereto included in this Quarterly Report. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions. Factors that could cause differences include, but are not limited to, expected market demand for our services and products, fluctuations in pricing for materials, and competition.

Overview

WellQuest Medical & Wellness Corporation ("WellQuest") was incorporated in the state of Oklahoma on November 8, 2004. We incorporated a wholly owned subsidiary in the State of Arkansas on May 5, 2005 as WellQuest Medical & Wellness Centers of Arkansas, Inc., which was subsequently re-registered as WellQuest of Arkansas, Inc. We formed WellQuest of Tulsa, LLC in March 2012, which is 65% owned by us. We incorporated WellQuest of Oklahoma, Inc., a wholly owned subsidiary, in the state of Oklahoma on March 5, 2013.

We provide an integrated medical delivery site with family physician healthcare services, preventive/wellness services and medical skin-care services. The integration of these services embraces the clinical synergy of medical treatments for illness, preventive/wellness services and products for health maintenance and medically supervised skin-care treatments for aesthetic enhancement.

Results of Operations

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future.

Site Performance and Consolidated Results. The Bentonville site achieved net revenues of approximately $2.8 million and the Tulsa site achieved net revenues of approximately $1.2 million for the nine months ended September 30, 2016. Revenues at both sites were negatively affected by a mild winter season absent of flu and typical cold-weather service demands. The longstanding results of the Bentonville site affirmed our concept for both delivery of services and business performance. This influenced our decision to accomplish our first replication with a new site in Tulsa, Oklahoma in November 2013. However, the du-novo ramp-up of the site in the Tulsa market continues to be slower than planned. In response to the lower revenues, we initiated the following actions to move ourselves into profitability and growth: (1) reduced operating expenses by $60,000 per month going forward; (2) expanded service options in each clinic to increase same store growth; (3) restructured the management and supervisory team to achieve improved qualitative and quantative performance; (4) implemented dedicated business to business sales; (5) established performance standards for medical providers; and, (6) pursued branded merger and management relationships with interested independent medical practices. The consolidated results reflect investments of capital, debt and resources made by the Company to build, staff and operate our Tulsa site.

Summarized financial information is shown in the following table for the three and nine months ended September 30, 2016 and 2015:

	For the Three Months ended September 30, 2016			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 907,645	$ 329,758	$ 2,036	$ 1,239,439
Operating expenses	763,777	444,221	180,038	1,388,036
Income (loss) from operations	143,868	(114,463)	(178,002)	(148,597)
Interest expense	-	-	(59,114)	(59,114)
Preferred returns	-	-	(15,528)	(15,528)
Provision for income taxes – current	-	-	(1,849)	(1,849)
Net income (loss)	$ 143,868	$ (114,463)	$ (254,493)	$ (225,088)

	For the Three Months ended September 30, 2015			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 1,022,624	$ 400,058	$ -	$ 1,422,682
Operating expenses	845,563	523,265	213,937	1,582,765
Income (loss) from operations	177,061	(123,207)	(213,937)	(160,083)
Interest expense	-	-	(57,534)	(57,534)
Preferred returns	-	-	(14,531)	(14,531)
Provision for income taxes – current	-	-	(16,182)	(16,182)
Net income (loss)	$ 177,061	$ (123,207)	$ (302,184)	$ (248,330)

	For the Nine Months ended September 30, 2016			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 2,817,674	$ 1,238,378	$ 2,036	$ 4,058,088
Operating expenses	2,380,087	1,460,397	519,084	4,359,568
Income (loss) from operations	437,587	(222,019)	(517,048)	(301,480)
Interest expense	-	-	(201,651)	(201,651)
Preferred returns	-	-	(45,396)	(45,396)
Provision for income taxes – current	-	-	(1,849)	(1,849)
Net income (loss)	$ 437,587	$ (222,019)	$ (765,944)	$ (550,376)

	For the Nine Months ended September 30, 2015			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 3,066,602	$ 1,391,668	$ -	$ 4,458,270
Operating expenses	2,540,305	1,519,056	712,819	4,772,180
Income (loss) from operations	526,297	(127,388)	(712,819)	(313,910)
Interest expense	-	-	(175,660)	(175,660)
Preferred returns	-	-	(43,592)	(43,592)
Provision for income taxes – current	-	-	(16,182)	(16,182)
Net income (loss)	$ 526,297	$ (127,388)	$ (948,253)	$ (549,344)

Three months ended September 30, 2016 compared to the three months ended September 30, 2015

Net Revenues. Net revenues for the three months ended September 30, 2016 were $1,239,439 compared to $1,422,682 for the three months ended September 30, 2015. The decrease of $183,243 is the result of reduced medical client visits at both sites during the three months ended September 30, 2016. During the three months ended September 30, 2016, combined medical client visits were 10,698 (7,785 in Bentonville and 2,913 in Tulsa) compared to combined medical client visits of 12,612 (8,660 in Bentonville and 3,952 in Tulsa) during the three months ended September 30, 2015.

In the three months ended September 30, 2016, we began leasing unused space to third-party medical providers under one year lease agreements. The rental income is included in corporate revenues above.

Net Operating Expenses. Operating expenses for the three months ended September 30, 2016 were $1,388,036 compared to $1,582,765 for the three months ended September 30, 2015. The decrease of $194,729 was primarily the result of cost cutting measures enacted in late 2015 and the beginning of 2016. During the three months ended June 30, 2016, increased standards of performance required of our Tulsa medical providers led to resignations at the Tulsa site. By July 1, 2016, full-time and part-time medical providers were in place for the summer months. Additionally, on September 1, 2016, a new physician and mid-level provider joined our Tulsa site. This transition of the medical team resulted in lower staffing levels, however, the lower costs and staff levels met the service demands of the summer.

Operating Loss. Operating loss for the three months ended September 30, 2016 was $148,597 compared to an operating loss of $160,083 for the three months ended September 30, 2015. The improvement of $11,486 was primarily the result of decreased operating expenses exceeding our decrease in total net revenues, as discussed above.

Interest Expense. Interest expense for the three months ended September 30, 2016 was $59,114 compared to $57,534 for the three months ended September 30, 2015. The increase of $1,580 was primarily due to interest incurred on borrowings on our working capital loan in 2015. We had net borrowings of approximately $41,000 on the working capital loan in July through December 2015. There have been no additional borrowings on the working capital loan in 2016.

Preferred Returns. During the three months ended September 30, 2016, we accrued preferred returns owed on the Class B membership units in WellQuest of Tulsa, LLC of $15,528 compared to $14,531 for the three months ended September 30, 2016. The increase in preferred returns accrued during the three months ended September 30, 2016 is due to the capital contributions by WellQuest of Tulsa Class B members in April 2016 of approximately $50,000.

Net Loss. Net loss for the three months ended September 30, 2016 was $225,088 compared to a net loss of $248,330 for the three months ended September 30, 2015. The improvement of $23,242 was primarily the result of decreased operating expenses exceeding our decrease in total net revenues, as discussed above.

Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015

Net Revenues. Net revenues for the nine months ended September 30, 2016 were $4,058,088 compared to $4,458,270 for the nine months ended September 30, 2015. The decrease of $400,182 is the result of reduced medical client visits at both sites during the nine months ended September 30, 2016. During the nine months ended September 30, 2016, combined medical client visits were 35,444 (24,993 in Bentonville and 10,451 in Tulsa) compared to combined medical client visits of 38,418 (27,167 in Bentonville and 11,251 in Tulsa) during the nine months ended September 30, 2015.

In the three months ended September 30, 2016, we began leasing unused space to third-party medical providers under one year lease agreements. The rental income is included in corporate revenues above.

Net Operating Expenses. Operating expenses for the nine months ended September 30, 2016 were $4,359,568 compared to $4,772,180 for the nine months ended September 30, 2015. The decrease of $412,612 was primarily the result of cost cutting measures enacted in late 2015 and the beginning of 2016.

Operating Loss. Operating loss for the nine months ended September 30, 2016 was $301,480 compared to an operating loss of $313,910 for the nine months ended September 30, 2015. The improvement of $12,430 was primarily the result of decreased operating expenses exceeding our decrease in total net revenues, as discussed above.

Interest Expense. Interest expense for the nine months ended September 30, 2016 was $201,651 compared to $175,660 for the nine months ended September 30, 2015. The increase of $25,991 was primarily due to interest incurred on borrowings on our working capital loan in 2015. We had net borrowings of approximately $41,000 on the working capital loan in July through December 2015. There have been no additional borrowings on the working capital loan in 2016.

Preferred Returns. During the nine months ended September 30, 2016, we accrued preferred returns owed on the Class B membership units in WellQuest of Tulsa, LLC of $45,396 compared to $43,592 for the nine months ended September 30, 2016. The increase in preferred returns accrued during the nine months ended September 30, 2016 is due to the capital contributions by WellQuest of Tulsa Class B members in April 2016 of approximately $50,000.

Net Loss. Net loss for the nine months ended September 30, 2016 was $550,376 compared to a net loss of $549,344 for the nine months ended September 30, 2015. The increase of $1,032 is primarily the result of increased interest expense, as discussed above.

Liquidity and Capital Resources

As of September 30, 2016, we had a working capital deficit of $3,819,903, resulting from current assets of $503,280 and current liabilities of $4,323,183. Since we did not meet the required debt service coverage ratio on two loans as discussed in Note 6 of the Notes to Consolidated Financial Statements, the outstanding balances of those loans have been included in current liabilities at September 30, 2016. For the nine months ended September 30, 2016, net cash provided by operating activities totaled $22,701. Cash used in investing activities totaled $59,442. Cash provided by financing activities totaled $36,100.

Days in Accounts Receivable

Our days in medical accounts receivable were 42 and 28 days as of September 30, 2016 and December 31, 2015, respectively. All medical aesthetics services and product sales are paid at the point of service by credit cards, debit cards, checks or cash. Accounts receivable related to medical aesthetics services are not material and are not included in this analysis. Medical clinic services provided by AMWPA and PCP of Tulsa are generally submitted for billing to third-party insurance companies or Medicare within 48 hours of the time of service. Most claims are submitted electronically to the insurance companies and Medicare. These claims become accounts receivable at the time they are submitted to the insurance company. The aging of accounts receivable begins at the date of the billing submission. Insurance companies then review the electronic billing and either ask for more/corrected information, deny the particular service or part of a service or pay it electronically or by check. In addition, each insurance company adjusts the billing amount for each specific service to the "insurance allowable rate" as specified in that insurance company's contract with AMWPA and PCP of Tulsa. The insurance company will also identify any portions of the billing that are to be paid by the insured patient (patient responsible). These adjustments are communicated along with payments to us in an explanation of benefits from the insurance company.

We calculate days sales outstanding using average daily sales over the previous three months to arrive at an average daily charge amount. Medical clinic accounts receivable as of the end of the period is divided by the average daily charge amount to arrive at days sales outstanding. Below is a calculation of the days sales outstanding as reported above:

	Three Months Ended September 30, 2016	Three Months Ended December 31, 2015
Gross Medical Clinic Revenue (1)	$ 1,779,623	$ 2,382,678
Expense recorded for Contractual adjustment/Bad Debt Allowance	(626,012)	(864,282)
Net Medical Clinic Revenue	$ 1,153,611	$ 1,518,396
# of Days in period (2)	92	92
Average Daily Charge (3) = (1) / (2)	$ 19,344	$ 25,899
Medical Clinic Accounts Receivable (4)	$ 819,955	$ 720,184
Days in medical accounts receivable = (4) / (3)	42	28

We make every effort to collect any anticipated "client responsible" portions of a service bill (such as a co-pay or deductible) at the time of service. Payments by the insurance companies are posted to each client's account at the time it is received. Client payments are also posted as received. Accounts receivable are then reduced by the amounts of insurance contractual adjustments, insurance payments and client payments. At the time any amounts are determined to be owed by the client; printed bills are sent to the responsible party of the client. During all of these collection processes from the time of the initial billing date to the insurance companies, the accounts are individually and collectively aged. Due to the complexities of medical insurance policies, employer specific policies, and coverage qualifications, some appeals and interactions with insurance companies can result in three to nine months of claim reconciliation. If the client does not respond after three mailed billings, then the account is turned over to a collection company that pursues collection from the client. When an account is turned over for collection, it is removed from the accounts receivable and maintained in a bad debt recovery account and reserved at its estimated realizable value. If the collection company fails in locating the client or in collecting the account due, then the balance of the account is written off against the allowance. Any amounts due under $5.00 are immediately written off due to the cost of collection exceeding the expected collection recovery.

Capital Resources

Whereas we have been successful in the past in raising capital, no assurance can be given that these sources of financing will continue to be available to us and/or that demand for our equity/debt instruments will be sufficient to meet our capital needs, or that financing will be available on terms favorable to us. If funding is insufficient at any time in the future, we may not be able to take advantage of business opportunities or respond to competitive pressures, or may be required to reduce the scope of our planned service development and marketing efforts, any of which could have a negative impact on our business and operating results. In addition, insufficient funding may have a material adverse effect on our financial condition, which could require us to:

- curtail operations significantly;
- sell significant assets;
- seek arrangements with strategic partners or other parties that may require us to relinquish significant rights to products, technologies or markets; or
- explore other strategic alternatives including a merger or sale of our company.

Critical Accounting Policies

Accounts Receivable

Accounts receivable principally represent receivables from customers and third-party payors for medical services provided by clinic physicians, less an allowance for contractual adjustments and doubtful accounts. We estimate the collectability of receivables based on industry standards and our collection history. We recorded contractual adjustments and bad debt expense of approximately $2,153,000 and $2,329,000 for the nine months ended September 30, 2016 and 2015, respectively. We recorded contractual adjustments and bad debt expense of approximately $626,000 and $736,000 for the three months ended September 30, 2016 and 2015, respectively. Our revenues and receivables are reported at their estimated net realizable amounts and are subject to audit and adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered and are adjusted in the period of settlement. Actual settlements could have an adverse material effect on our financial position and operations.

Our accounts receivable include amounts that are pending approval from third party payors. Claims for insured patients are first filed with insurance, at which time the net realizable amount is unknown. The insurance company processes the claim and calculates the payment made to us. The following factors are among those considered by the insurance company: adjustments based on contracted amounts for specific procedures, outstanding deductible for the patient, and co-insurance percentages. Our billing system does not separately track claims that are pending approval. Our billing system also does not track claims that are denied by a third party payor and ultimately paid by the patient. Thus, the amount of claims classified as insurance receivables that are reclassified to self-pay is not quantifiable. We calculate allowances for contractual adjustment and bad debts based on total accounts receivable outstanding.

	As of September 30, 2016			
	60 days or less	61 – 120 days	Greater than 120 days	Total
Medicare/Medicaid	$ 62,335	$ 78,601	$ (8,841)	$ 132,095
Third party insurance (1)	314,179	43,724	19,606	377,509
Self pay (2)	72,078	48,076	190,197	310,351
Total Accounts Receivable	$ 448,592	$ 170,401	$ 200,962	$ 819,955

	As of December 31, 2015			
	60 days or less	61 – 120 days	Greater than 120 days	Total
Medicare	$ 57,692	$ 9,187	$ 6,681	$ 73,560
Third party insurance (1)	343,215	34,608	7,519	385,342
Self pay (2)	64,174	40,618	156,490	261,282
Total accounts receivable	$ 465,081	$ 84,413	$ 170,690	$ 720,184

(1) Third party insurance represents claims made to insurance companies not classified as Medicare, Medicaid, or other government-backed program.

(2) Self pay receivables are defined as all amounts due from individuals. The amounts can include amounts due from uninsured patients and co-payments or deductibles.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable and collectability is reasonably assured.

Net revenue of the Company is comprised of net clinic revenue and revenue derived from the sales of aesthetics services and related products. Net clinic revenue is recorded at established rates reduced by provisions for doubtful accounts and contractual adjustments. Contractual adjustments arise as a result of the terms of certain reimbursement and managed care contracts. Such adjustments represent the difference between charges at established rates and estimated recoverable amounts and are recognized in the period the services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are recognized in the year the settlements are determined.

Aesthetic revenues are recognized at the time of sale, as this is when the services have been provided or, in the case of product revenues, delivery has occurred, and aesthetics receives the customer's payment. Revenues from pre-paid purchases are also recorded when the customer takes possession of the merchandise or receives the service. Pre-paid purchases are defined as either gift cards or series sales. Series sales are the purchase of a series of services to be received over a period of time. Pre-paid purchases are recorded as a liability until they are redeemed. Pre-paid purchases expire two years from the date of the customer's purchase.

Earnings Per Share

The Company calculates and discloses Basic and Diluted EPS on the face of the statements of operations and provides a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

In computing Diluted EPS, only potential common shares that are dilutive — those that reduce earnings per share or increase loss per share — are included. Exercise of options and warrants or conversion of convertible securities is not assumed if the result would be antidilutive, such as when a loss from continuing operations is reported. The "control number" for determining whether including potential common shares in the Diluted EPS computation would be antidilutive is income from continuing operations. As a result, if there is a loss from continuing operations, Diluted EPS would be computed in the same manner as Basic EPS, even if an entity has net income after adjusting for discontinued operations, an extraordinary item or the cumulative effect of an accounting change. The Company incurred a loss from continuing operations for the three and nine months ended September 30, 2016 and 2015. Therefore, Basic and Diluted EPS are computed in the same manner for those periods.

Antidilutive and/or nonexercisable warrants, convertible preferred stock, convertible subordinated debentures, and unexercised stock options represent approximately 12,900,000 common shares at September 30, 2016, which may become dilutive in future calculations of EPS.

Share-Based Payment

In calculating the value of shares issued for goods or services received in a share-based payment transaction with nonemployees, we consider whether the fair value of the goods or services is more reliably measurable than the fair value of the equity instruments issued. If the fair value of the goods or services is more reliably measurable than the fair value of the equity instruments issued, then, the fair value of the goods or services received shall be used to measure the transaction. In contrast, if the fair value of the equity instruments issued in a share-based payment transaction with nonemployees is more reliably measurable than the fair value of the consideration received, the transaction shall be measured based on the fair value of the equity instruments issued. We utilized the fair value of the equity instruments issued to nonemployees to value the shares issued. We recognize the fair value of stock-based compensation awards in general corporate expense in the consolidated statements of operations on a straight-line basis over the vesting period.

ITEM V. LEGAL PROCEEDINGS.

From time to time, we may become involved in lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

ITEM VI. DEFAULTS UPON SENIOR SECURITIES

On September 14, 2012 and July 3, 2013, we entered into bank loans that are secured by substantially all of our WellQuest of Tulsa assets. We are obligated to maintain a debt service coverage ratio of 1.25:1. As of September 30, 2016, we were not in compliance with the debt service coverage ratio and continue to remain non-compliant. If the Company does not meet the debt service coverage ratio in the future, we cannot assure you that the bank will not declare an event of default. In the event the bank declares an event of default, we would be unable to repay the amount of the notes outstanding. As a result, the bank would have the right to take possession of the collateral, to operate our business using the collateral, and would have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the collateral, at public or private sale or otherwise to satisfy our obligations under the notes.

ITEM VII. OTHER INFORMATION

After twelve years of service as Directors of WellQuest Medical & Wellness Corporation, Directors John O'Connor and Curtis Rice resigned from the Board of Directors on August 29, 2016 to pursue other business interests.

ITEM VIII. EXHIBITS

A. **Material Contracts.**
The Company's material contracts have been previously disclosed and can be viewed at www.otcmarkets.com/stock/WEQL/filings under the heading "OTC Disclosure & News Service".

B. Articles of Incorporation and Bylaws

The Company's articles of incorporation and bylaws have been previously disclosed and can be viewed at www.otcmarkets.com/stock/WEQL/financials under the heading "OTC Disclosure & News Service".