WellQuest Medical & Wellness Corporation

Quarterly Report for the Fiscal Quarter Ended

September 30, 2014

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, 2014:

Common Stock
No. of shares authorized: 150,000,000
No. of shares outstanding: 35,776,951
Freely tradable shares (public float): 5,599,798
Total number of record holders: 34

Preferred Stock – Series A
No. of shares authorized: 75,000
No. of shares outstanding: 25,515
Freely tradable shares (public float): 0
Total number of record holders: 12

WELLQUEST MEDICAL & WELLNESS CORPORATION

ITEM III. Financial Statements

Consolidated Balance Sheets

	September 30 2014 (Unaudited)	December 31 2013
Assets		
Current assets:		
Cash	$ 142,267	$ 109,469
Accounts receivable, less allowance of $448,106 and $313,278 at September 30, 2014 and December 31, 2013, respectively	236,631	193,008
Other current assets	118,880	137,751
Total current assets	497,778	440,228
Property and equipment, net	2,879,719	2,996,140
Deferred financing costs, net of accumulated amortization of $4,603 and $1,575 at September 30, 2014 and December 31, 2013, respectively	104,175	62,988
Total assets	$ 3,481,672	$ 3,499,356
Liabilities and Deficit		
Current liabilities:		
Accounts payable	$ 243,505	$ 349,495
Accrued liabilities	370,058	352,043
Due to physicians and related parties	180,188	237,606
Current maturities of long-term debt – related parties	60,161	80,679
Current maturities of long-term debt	166,541	105,954
Current maturities of subordinated debentures	125,000	125,000
Total current liabilities	1,145,453	1,250,777
Long-term debt, less current portion	3,416,031	2,803,486
Accrued preferred returns	111,033	70,408
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; 25,515 shares issued and outstanding at September 30, 2014 and December 31, 2013	255	255
Common stock - $0.001 par value; authorized 150,000,000 shares; 35,776,951 and 33,567,307 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	35,777	33,567
Additional paid-in capital	2,207,490	2,120,674
Warrants outstanding	30,000	30,000
Accumulated deficit	(3,713,112)	(3,265,019)
Total WellQuest Medical & Wellness Corporation stockholders' deficit	(1,439,590)	(1,080,523)
Non-controlling interest	248,745	455,208
Total deficit	(1,190,845)	(625,315)
Total liabilities and deficit	$ 3,481,672	$ 3,499,356

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,	
	2014	2013	2014	2013
Net revenue	$ 1,195,282	$ 989,919	$ 3,743,274	$ 3,272,570
Operating expenses:				
Salaries, wages and benefits	465,495	404,186	1,383,715	1,163,193
Rents and facility expenses	103,207	69,038	300,248	210,575
Medical direct expenses, excluding salaries, wages and benefits	575,749	456,045	1,780,730	1,459,423
Aesthetics direct expenses, excluding salaries, wages and benefits	55,599	28,864	157,306	108,228
General corporate expenses	132,088	136,674	468,615	329,129
Depreciation and amortization	56,123	20,411	166,943	54,729
Total operating expenses	1,388,261	1,115,218	4,257,557	3,325,277
Operating loss	(192,979)	(125,299)	(514,283)	(52,707)
Other income and expense:				
Loss on disposal of asset	(153)	-	(153)	(198)
Interest expense	(56,231)	(19,755)	(165,952)	(60,030)
Total other expense	(56,384)	(19,755)	(166,105)	(60,228)
Loss before preferred returns	(249,363)	(145,054)	(680,388)	(112,935)
Preferred returns	(14,222)	(57,206)	(40,625)	(57,206)
Loss before income taxes	(263,585)	(202,260)	(721,013)	(170,141)
Provision for income taxes – current	-	-	-	4,396
Net loss	(263,585)	(202,260)	(721,013)	(174,537)
Loss attributable to non-controlling interest	71,097	37,626	272,920	52,053
Net loss applicable to common stock of WellQuest Medical & Wellness Corporation	$ (192,488)	$ (164,634)	$ (448,093)	$ (122,484)
Loss per common share:				
Basic and diluted	$ (0.005)	$ (0.005)	$ (0.013)	$ (0.004)
Weighted average number of common shares outstanding:				
Basic and diluted	35,776,951	32,118,660	34,570,522	32,118,660

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, 2014
(Unaudited)

	Common Stock		Series A Convertible Preferred		Additional Paid-in		Accumulated	Non-Controlling	Total
	Shares	$	Shares	$	Capital	Warrants	Deficit	Interest	Deficit
Balance, December 31, 2013	33,567,307	$ 33,567	25,515	$ 255	$ 2,120,674	$ 30,000	$ (3,265,019)	455,208	$ (625,315)
Net loss	-	-	-	-	-	-	(448,093)	(272,920)	(721,013)
Capital contributions	-	-	-	-	-	-	-	66,457	66,457
Stock options exercised	1,015,199	1,015	-	-	13,985	-	-	-	15,000
Conversion of subordinated debentures to common stock – issued at $0.018 per share	1,194,445	1,195	-	-	20,305	-	-	-	21,500
Stock-based compensation	-	-	-	-	52,526	-	-	-	52,526
Balance, September 30, 2014	33,776,951	$ 35,777	25,515	$ 255	$ 2,207,490	$ 30,000	$ (3,713,112)	248,745	$ (1,190,845)

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, 2014 and 2013
(Unaudited)

	2014	2013
Cash Flows from Operating Activities		
Net loss	$ (721,013)	$ (174,537)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on disposal of asset	154	198
Depreciation and amortization	166,943	54,729
Preferred returns	40,625	57,206
Amortization of deferred financing costs	3,028	-
Stock based compensation	52,526	8,977
Provision for uncollectible accounts	134,828	7,835
Change in assets and liabilities:		
Accounts receivable, net	(178,451)	2,517
Other current assets	18,871	(10,037)
Other assets	(1,882)	-
Accounts payable and accrued liabilities	(87,975)	102,325
Due to physicians and related parties	(57,418)	(6,204)
Net cash provided by (used in) operating activities	(629,764)	43,009
Cash Flows from Investing Activities		
Purchases of property and equipment	(50,676)	(145,585)
Cash Flows from Financing Activities		
Repayment of long-term borrowings and obligations under capital leases	(45,547)	(125,778)
Borrowings on long-term debt	718,679	79,159
Repayments of related party long-term debt	(27,018)	-
Borrowings on related party long-term debt	28,000	36,250
Capital contributions by non-controlling interests	66,457	-
Stock options exercised	15,000	-
Deferred financing costs	(42,333)	(26,773)
Net cash provided by (used in) financing activities	713,238	(37,142)
Net increase (decrease) in cash	32,798	(139,718)
Cash, beginning of period	109,469	284,300
Cash, end of period	$ 142,267	$ 144,582
Non-Cash Financing Activities		
Conversion of related party long-term debt to common stock	$ 21,500	$ -
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 171,848	$ 28,844
Cash paid for income taxes	$ -	$ 9,564

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, which opened on November 11, 2013.

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").

Northwest Arkansas Primary Care Physicians, P.A.

WellQuest of Arkansas entered into a Management and Medical Services Agreement with Northwest Arkansas Primary Care Physicians, P.A. ("NWAPCP") pursuant to which NWAPCP 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, NWAPCP 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 Arkansas. From those proceeds, WellQuest of Arkansas pays the compensation of the employees of NWAPCP and all expenses associated from the conduct of the practice. WellQuest of Arkansas receives a monthly management fee of 7.5% of the practice's net revenues, 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 NWAPCP.

WellQuest determined that NWAPCP qualifies for consolidation, as WellQuest is 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. All significant intercompany accounts and transactions have been eliminated upon consolidation.

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

The Company and NWAPCP did not renew the Management and Medical Services Agreement after it expired on August 31, 2014. The Company entered into a new Management and Medical Services Agreement on September 1, 2014 with Arkansas Medical & Wellness, P.A. ("AMWPA"). The agreement with AMWPA contains similar terms to the one discussed below with Primary Care Physicians of Tulsa Region, P.C.

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 the nine months ended September 30, 2014, $66,457 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, $111,033 of preferred returns have been accrued as of September 30, 2014.

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, 2014 are not necessarily indicative of the results to be expected for the full year. It is suggested that the December 31, 2013 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 $3,028 and $0 was recorded during the nine months ended September 30, 2014 and 2013, 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, 2014 and 2013. 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 14,600,000 and 14,500,000 common shares at September 30, 2014 and 2013, respectively, 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 no current income tax provision for the three and nine months ended September 30, 2014 due to approximately $2.3 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, 2014 differs from the U.S. federal statutory rate of 34% due to the change in the valuation allowance.

The Company recognized current income tax provision for the nine months ended September 30, 2013 due to additional 2012 required alternative minimum taxes owed on the Company’s taxable net income for that year.

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 2011, 2012 and 2013.

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 August 4, 2008, the Company granted stock options for 500,000 shares of stock at an exercise price of $0.08888 per share. The options are fully vested, have a termination date of August 3, 2018 and the Company has reserved 500,000 shares of common stock for the exercise of these options.

On December 14, 2009, the Company granted stock options for 3,852,250 shares of stock at an exercise price of $0.20 per share. The options are subject to a vesting schedule as follows: 1,284,083 options on December 14, 2011; 1,284,083 options on December 14, 2012; and 1,284,084 options on December 14, 2013. The options have a termination date of December 14, 2015. Compensation expense was calculated at $110,362, which was to be recognized over the vesting period. On December 21, 2010, the Company canceled 3,252,250 of the options issued on December 14, 2009 and reissued the same number of options at exercise prices of $0.032 to $0.0352 per share to better reflect the value of the Company's shares. The remaining 600,000 options issued on December 14, 2009 were forfeited. The new options have a termination date of December 21, 2016. Compensation expense was adjusted to reflect the new exercise price. During the three months ended September 30, 2014, 98,533 options were exercised for $3,468. The Company has reserved 3,153,717 shares of common stock for the exercise of these options.

On December 21, 2010, the Company granted stock options for 1,350,000 shares of stock at exercise prices of $0.015 to $0.0165 per share, which represented the fair value of those shares on the grant date. The options are subject to a vesting schedule as follows: 449,733 options on December 21, 2011; 449,733 options on December 21, 2012; and 450,534 options on December 21, 2013. The options have a termination date of December 21, 2016. Compensation expense was calculated at $19,980, which was recognized over the vesting period. During the first quarter of 2013, 66,800 options were forfeited. During the three months ended September 30, 2014, 450,000 options were exercised for $7,425. The Company has reserved 833,200 shares of common stock for the exercise of these options.

On January 23, 2012, the Company granted stock options for 2,400,000 shares of stock at an exercise price of $0.008 per share, which represented the fair value of those shares on the grant date. The options are subject to a vesting schedule as follows: 800,000 options on January 23, 2013; 800,000 options on January 23, 2014; and 800,000 options on January 23, 2015. The options have a termination date of January 23, 2017. Compensation expense was calculated at $19,200, which will be recognized over the vesting period. During the first quarter of 2013, 400,000 options were forfeited. The amount expensed in the nine months ended September 30, 2014 related to these options was $4,000. Remaining compensation expense is approximately $1,900 and will be recognized in 2014 and 2015. During the three months ended September 30, 2014, 466,666 options were exercised for $4,107. The Company has reserved 1,533,334 shares of common stock for the exercise of these options.

On January 14, 2013, the Company granted stock options for 50,000 shares of stock at an exercise price of $0.03 per share. The options are subject to a vesting schedule as follows: 16,667 options on January 14, 2014; 16,667 options on January 14, 2015; and 16,667 options on January 14, 2016. The options have a termination date of January 14, 2018. Compensation expense was calculated at $1,500, which will be recognized over the vesting period. During November 2013, 15,000 options were forfeited. The Black-Scholes calculation used to value these options included a risk-free interest rate of 0.78%, an estimated volatility of 510%, no dividend yield and no forfeiture rate and an expected life of five years. During 2013, 15,000 options were forfeited. The amount expensed in the nine months ended September 30, 2014 related to these options was $262. Remaining compensation expense is $438 and will be recognized in 2014 and 2015. The Company has reserved 35,000 shares of common stock for the exercise of these options.

On May 8, 2013, the Company granted stock options for 100,000 shares of stock at an exercise price of $0.026 per share. The options are subject to a vesting schedule as follows: 33,333 options on May 8, 2014; 33,333 options on May 8, 2015; and 33,334 options on May 8, 2016. The options have a termination date of May 8, 2018. Compensation expense was calculated at $2,500, which will be recognized over the vesting period. The Black-Scholes calculation used to value these options included a risk-free interest rate of 0.75%, an estimated volatility of 491%, no dividend yield and no forfeiture rate and an expected life of five years. The amount expensed in the nine months ended September 30, 2014 related to these options was a $625. Remaining compensation expense is approximately $1,300 and will be recognized in 2014 through 2016. The Company has reserved 100,000 shares of common stock for the exercise of these options.

On May 14, 2014, The Company granted stock options for 1,165,000 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, 2019. 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. The Black-Scholes calculation used to value these options included a risk-free interest rate of 1.57%, an estimated volatility of 672%, no dividend yield and no forfeiture rate and an expected life of five years. The amount expensed in the nine months ended September 30, 2014 related to these options was a $47,639. Remaining compensation expense is approximately $17,600 and will be recognized in 2014 through 2017. The Company has reserved 1,165,000 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. Currently, the Company is paying interest only on this loan at the lessor of prime plus 2.25% or 5.5% (5.5% at September 30, 2014) with interest payable monthly. 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 July 13, 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. At September 30, 2014, the balance on the loan with the bank was $1,461,348 and the balance on the SBA loan was $1,045,529. The Company expects that the bank will convert its loan to a 15-year term loan in the 4th quarter of 2014.

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. Additionally, the loan requires the Company to maintain a debt service coverage ratio of 1.25 to 1 to be first measured after the first full year of operations of WellQuest of Tulsa following the Company's receipt of the Certificate of Occupancy.

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 prior 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, 2014, the balance on this note was $253,772.

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 to 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. Interest only payments are required on the loan for the first 12 months from the date of the note and beginning with the 13th month, monthly principal and interest payments of $15,248 will be required. The loan is collateralized by third interests in 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. Additionally, the loan requires WellQuest of Tulsa to carry a life insurance policy on Steve Swift in the amount of $800,000 with the lender designated as the beneficiary. At September 30, 2014, the balance on this note was $800,000.

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 5% and matured January 2014. On March 26, 2014, the maturity date of the note payable was extended to December 31, 2014 and interest incurred on the balance increased to 7% per annum. The note payable does not require specified monthly payments. During the three months ended September 30, 2014, the Company made payments totaling $15,000 on the note payable. No payments were made on the amount borrowed in 2013.

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 2014 or 2013.

During 2013, the Company borrowed $126,453 from its Vice President to purchase an aesthetics laser for the Tulsa, Oklahoma facility. The amount borrowed is payable on demand and bears interest at 7%. At September 30, 2014, the balance on this note was $8,684.

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, 2014, the Company has subordinated convertible debentures outstanding of $125,000. The maturity date for one of the remaining debentures has been extended to March 31, 2014 and another to December 31, 2014. Although the maturity date on two of the debentures have not been extended by the holder past March 31, 2014, the Company expects the maturity date to be extended to December 31, 2014 with 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 2013, the Company issued to members of its board of directors convertible debentures totaling $40,200. These funds were used for corporate expenses. Interest incurred on the debentures was 10% and the debentures matured December 31, 2013. In accordance with the debenture agreements, the debentures were convertible to common stock at a 25% discount of the average closing prices for the five trading days preceding the applicable conversion date. On November 13, 2013, the debentures were converted to 1,448,647 shares of common stock. The conversion price was $0.02775 per share.

During the three months ended September 30, 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 mature 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, 2014, the balance on these debentures was $6,500.

On November 3, 2014, WellQuest issued to a WellQuest of Tulsa Class B member a convertible debenture for $60,000. These funds are to be used for operations. Interest incurred on the debenture is 10% and the debenture mature 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 or the last sale price of WellQuest's common stock on the date of conversion whichever is greater.

7. *Subsequent Events*

Management has evaluated subsequent events through November 14, 2014, 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 quarterly net revenues of approximately $916,000 and the Tulsa site achieved quarterly net revenues of approximately $279,000 for the three months ended September 30, 2014. Additionally, the Bentonville site achieved net revenues of approximately $2,970,000 and the Tulsa site achieved net revenues of approximately $770,000 for the nine months ended September 30, 2014. We believe the consistent results of the Bentonville site and the expansion to our site in Tulsa affirm our concept of integrating modern medicine with a preventive focus to assist our clients on their quest for total well-being. The consolidated results reflect investments of capital, debt and resources made by the Company to build, staff and launch our new site in Tulsa, which opened November 11, 2013.

Summarized financial information is shown in the following table for the three and nine months ended September 30, 2014 and 2013:

	For the Three Months ended September 30, 2014			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 915,959	$ 279,323	$ -	$ 1,195,282
Operating expenses	798,830	376,355	213,076	1,388,261
Income (loss) from operations	117,129	(97,032)	(213,076)	(192,979)
Other expense	-	-	(153)	(153)
Interest expense	-	-	(56,231)	(56,231)
Preferred returns	-	-	(14,222)	(14,222)
Net income (loss)	$ 117,129	$ (97,032)	$ (283,682)	$ (263,585)

	For the Three Months ended September 30, 2013			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 989,919	$ -	$ -	$ 989,919
Operating expenses	903,001	-	212,217	1,115,218
Income (loss) from operations	86,918	-	(212,217)	(125,299)
Interest expense	-	-	(19,755)	(19,755)
Preferred returns	-	-	(57,206)	(57,206)
Net income (loss)	$ 86,918	$ -	$ (289,178)	$ (202,260)

	For the Nine Months ended September 30, 2014			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 2,973,529	$ 769,745	$ -	$ 3,743,274
Operating expenses	2,565,916	1,148,287	543,354	4,257,557
Income (loss) from operations	407,613	(378,542)	(543,354)	(514,283)
Other expense	-	-	(153)	(153)
Interest expense	-	-	(165,952)	(165,952)
Preferred returns	-	-	(40,625)	(40,625)
Net income (loss)	$ 407,613	$ (378,542)	$ (750,084)	$ (721,013)

	For the Nine Months ended September 30, 2013			
	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 3,272,570	$ -	$ -	$ 3,272,570
Operating expenses	2,806,849	-	518,428	3,325,277
Income (loss) from operations	465,721	-	(518,428)	(52,707)
Other expense	-	-	(198)	(198)
Interest expense	-	-	(60,030)	(60,030)
Preferred returns	-	-	(57,206)	(57,206)
Provision for income taxes – current	-	-	(4,396)	(4,396)
Net income (loss)	$ 465,721	$ -	$ (640,258)	$ (174,537)

Three months ended September 30, 2014 compared to the three months ended September 30, 2013

Net Revenues. Net revenues for the three months ended September 30, 2014 were $1,195,282 compared to $989,919 for the three months ended September 30, 2013. The increase of $205,363 is primarily the result of Tulsa net revenues of approximately $279,000 during the three months ended September 30, 2014 offset by a decrease in net revenues of approximately $74,000 at our Bentonville site. The Bentonville site serviced 9,006 medical clients during the three months ended September 30, 2013 compared to combined medical client visits of 10,846 (8,788 in Bentonville and 2,058 in Tulsa) during the three months ended September 30, 2014.

Net Operating Expenses. Operating expenses for the three months ended September 30, 2014 were $1,388,261 compared to $1,115,218 for the three months ended September 30, 2013. The increase of $273,043 was primarily the result of the startup of our Tulsa site in the 4th quarter of 2013 that added approximately $376,000 in operating expenses offset by a decrease in Bentonville site operating expenses of approximately $104,000.

The addition of our Tulsa site in November 2013 has caused us to utilize significant capital resources to staff and operate the facility prior to it operating at maximum capacity. Additionally, Tulsa operating expenses include marketing expenses incurred to drive brand awareness in the Tulsa market. Bentonville operating expenses decreased due to lower revenues discussed above. Additionally, during the 3rd quarter 2013, one of our providers in Bentonville moved to our Tulsa site causing our medical labor costs to decrease.

Operating Loss. Operating loss for the three months ended September 30, 2014 was $192,979 compared to an operating loss of $125,299 for the three months ended September 30, 2013. The decrease of $67,680 was primarily the result of increased operating expenses offset by increased net revenues as discussed above.

Interest Expense. Interest expense for the three months ended September 30, 2014 was $56,231 compared to $19,755 for the three months ended September 30, 2013. The increase of $36,476 was primarily due to interest incurred on borrowings used to fund the construction of the Tulsa facility in 2013 and borrowings on our working capital loan since opening the Tulsa site.

Preferred Returns. During the three months ended September 30, 2014, we accrued preferred returns owed on the Class B membership units in WellQuest of Tulsa, LLC of $14,222. During the three months ended September 30, 2013, we determined it was necessary to record preferred returns from the date the Class B membership units in WellQuest of Tulsa, LLC were sold of September 1, 2012. Therefore, $57,206 of preferred returns have been accrued during the three months ended September 30, 2013.

Net Loss. Net loss for the three months ended September 30, 2014 was $263,585 compared to a net loss of $202,260 for the three months ended September 30, 2013. The decrease of $61,325 is primarily the result of the losses incurred at our Tulsa site, increased interest expense and accrued preferred returns.

Nine months ended September 30, 2014 compared to the nine months ended September 30, 2013

Net Revenues. Net revenues for the nine months ended September 30, 2014 were $3,743,274 compared to $3,272,570 for the nine months ended September 30, 2013. The increase of $470,704 is primarily the result of Tulsa net revenues of approximately $770,000 during the nine months ended September 30, 2014 offset by a decrease in net revenues of approximately $299,000 at our Bentonville site. The Bentonville site serviced 30,158 medical clients during the nine months ended September 30, 2013 compared to combined medical client visits of 32,813 (27,587 in Bentonville and 5,226 in Tulsa) during the nine months ended September 30, 2014.

Net Operating Expenses. Operating expenses for the nine months ended September 30, 2014 were $4,257,557 compared to $3,325,277 for the nine months ended September 30, 2013. The increase of $932,280 was primarily the result of the startup of our Tulsa site in the 4th quarter of 2013 that added approximately $1,148,000 in operating expenses offset by a decrease in Bentonville site operating expenses of approximately $241,000.

The addition of our Tulsa site in November 2013 has caused us to utilize significant capital resources to staff and operate the facility prior to it operating at maximum capacity. Additionally, Tulsa operating expenses include significant marketing expenses incurred to drive brand awareness in the Tulsa market. Bentonville operating expenses decreased due to lower revenues discussed above. During the first quarter 2013, the severe cold and flu season caused us to service a significantly higher number of clients, which led to increased lab fees and medical supplies usage. Additionally, during the 3rd quarter 2013, one of our providers in Bentonville moved to our Tulsa site causing our medical labor costs to decrease.

Operating Loss. Operating loss for the nine months ended September 30, 2014 was $514,283 compared to an operating loss of $52,707 for the nine months ended September 30, 2013. The decrease of $461,576 was primarily the result of increased operating expenses offset by increased net revenues as discussed above.

Interest Expense. Interest expense for the nine months ended September 30, 2014 was $165,952 compared to $60,030 for the nine months ended September 30, 2013. The increase of $105,922 was primarily due to interest incurred on borrowings used to fund the construction of the Tulsa facility in 2013 and borrowings on our working capital loan since opening the Tulsa site.

Preferred Returns. During the nine months ended September 30, 2014, we accrued preferred returns owed on the Class B membership units in WellQuest of Tulsa, LLC of $40,625. During the nine months ended September 30, 2013, we determined it was necessary to record preferred returns from the date the Class B membership units in WellQuest of Tulsa, LLC were sold of September 1, 2012. Therefore, $57,206 of preferred returns have been accrued during the nine months ended September 30, 2013.

Net Loss. Net loss for the nine months ended September 30, 2014 was $721,013 compared to a net loss of $174,537 for the nine months ended September 30, 2013. The decrease of $546,476 is primarily the result of the losses incurred at our Tulsa site, increase interest expense and accrued preferred returns.

Liquidity and Capital Resources

As of September 30, 2014, we had a working capital deficit of $647,674, resulting from current assets of $497,779 and current liabilities of $1,145,453. For the nine months ended September 30, 2014, net cash used in operating activities totaled $629,764. Cash used in investing activities totaled $50,676. Cash provided by financing activities totaled $713,238.

Days in Accounts Receivable

Our days in medical accounts receivable were 40 and 33 days as of September 30, 2014 and December 31, 2013, respectively. The increase in days in accounts receivable is primarily due to the expected lag in collections related to our transition to Arkansas Medical & Wellness, P.A. in Bentonville during the three months ending September 30, 2014. 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 NWAPCP, 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 NWAPCP 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, 2014	Three Months Ended December 31, 2013
Gross Medical Clinic Revenue (1)	$ 1,588,334	$ 1,416,045
Expense recorded for Contractual adjustment/Bad Debt Allowance	(631,249)	(487,779)
Net Medical Clinic Revenue	$ 957,085	$ 928,266
# of Days in period (2)	92	92
Average Daily Charge (3) = (1) / (2)	$ 17,265	$ 15,392
Medical Clinic Accounts Receivable (4)	$ 684,737	$ 506,286
Days in medical accounts receivable = (4) / (3)	40	33

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 $1,814,000 and $1,415,000 for the nine months ended September 30, 2014 and 2013, respectively. We recorded contractual adjustments and bad debt expense of approximately $631,000 and $436,000 for the three months ended September 30, 2014 and 2013, 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, 2014			
	60 days or less	61 – 120 days	Greater than 120 days	Total
Medicare/Medicaid	$ 70,435	$ 9,919	$ 16,406	$ 96,760
Third party insurance (1)	379,476	28,711	(24,323)	383,864
Self pay (2)	39,983	33,106	131,024	204,113
Total Accounts Receivable	$ 489,894	$ 71,736	$ 123,107	$ 684,737

	As of December 31, 2013			
	60 days or less	61 – 120 days	Greater than 120 days	Total
Medicare/Medicaid	$ 35,157	$ 5,287	$ (1,573)	$ 38,871
Third party insurance (1)	379,437	29,885	(33,677)	375,645
Self pay (2)	47,277	31,735	12,758	91,770
Total Accounts Receivable	$ 461,871	$ 66,907	$ (22,492)	$ 506,286

(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, 2014 and 2013. 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 14,600,000 and 14,500,000 common shares at September 30, 2014 and 2013, respectively, 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

None.

ITEM VII. OTHER INFORMATION

None.

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".