WellQuest Medical & Wellness Corporation

Annual Report for the Fiscal Years Ended

December 31, 2016 and 2015

FORWARD-LOOKING STATEMENTS

This Annual 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 Annual Report. Actual events or results may differ materially from those discussed herein.

Part A – General Company Information

Item 1. Exact name of the issuer and its predecessor(s), if any.

The exact name of the issuer is WellQuest Medical & Wellness Corporation (“the Company” or “we”). The issuer did not acquire capital or assets from a predecessor during the preceding five-year period.

Item 2. The address of the issuer's principal executive offices.

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

Investor Relations Contact:
Steve Swift, President and CEO
3400 SE Macy Rd., Suite 18
Bentonville, Arkansas 72712
Phone: (479) 845-0880
sswift@wellquestmedical.com

Item 3. The jurisdiction(s) and date of the issuer's incorporation or organization

We were incorporated in the State of Oklahoma on November 8, 2004 as HQHealthQuest Medical & Wellness Centers, Ltd. We changed our name to WellQuest Medical & Wellness Corporation on April 24, 2008. 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 70% owned by us. We incorporated WellQuest of Oklahoma, Inc., a wholly owned subsidiary, in the state of Oklahoma on March 5, 2013.

Part B – Share Structure

Item 4. The exact title and class of securities outstanding

Common Stock
Class: Common Stock
CUSIP: 94973Q
Trading symbol: WEQL

Convertible Preferred Stock – Series A
Class: Preferred Stock

Item 5. Par or stated value and description of the security

Common Stock – Par Value: $0.001 per share

We are authorized to issue up to 150,000,000 shares of common stock, par value $0.001. Holders of the common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available. Upon the liquidation, dissolution or winding up of our Company, the holders of common stock are entitled to share ratably in all of our assets which are legally available for distribution after payment of all debts and other liabilities and liquidation preference of any outstanding common stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights.

Convertible Preferred Stock – Series A – Par Value: $0.01 per share

We are authorized to issue up to 75,000 shares of Series A preferred stock, par value $0.01. The holders of the preferred stock shall be entitled to one vote per share with respect to any matter brought before the stockholders and enjoy the same voting rights as common stockholders. The holders of the preferred stock shall have no dividend preference over the Company's common stock. In the event the board of directors shall ever declare a dividend, the holders of the preferred stock shall be entitled to participate in such dividend, pro rata, to the same extent as any holder of the common stock on which such dividend may be declared.

In the event of any liquidation, dissolution, or winding-up of the Company (including a change of control), the holders of the preferred stock shall be entitled to receive, out of the remaining assets of the Company, the liquidation value in cash for each of the shares of preferred stock they then hold. These distributions will be made prior to any distributions to other stockholders. Any amounts remaining after such distributions will be distributed to the holders of the common stock and the preferred stock on parity with each other (on an as-converted basis). In the event the Company at any time or from time to time after the original issue date shall declare or pay any dividend on the preferred stock payable in preferred stock, or effect a subdivision or combination of the outstanding shares of preferred stock (by reclassification or otherwise than by payment of a dividend in preferred stock), then and in any such event, the liquidation value shall be proportionately decreased in the case of a stock dividend or subdivision and proportionately increased in the case of a combination of shares effective, in the case of such dividend, immediately after the close of business on the record date for the determination of holders of preferred stock entitled to receive such dividend or, in the case of a subdivision or combination, at the close of business immediately prior to the date upon which such corporate action becomes effective.

Holders of shares of preferred stock have the right to convert their shares, at any time, into shares of common stock. The conversion rate is determined by multiplying the number of preferred shares to be converted by $22.22 and dividing the result by the conversion price then in effect (currently $0.08888). At the option of the Company, all (but not less than all) of the shares of preferred stock may be converted into shares of common stock at the then applicable conversion price in any of the following events: (i) upon the Company having positive cumulative earnings before interest, depreciation, taxes and amortization (“EBITDA”) of a least $750,000 over four consecutive rolling calendar quarters; (ii) upon the closing of a qualifying offering, i.e., receipt by the Company of proceeds from a private placement of its securities of not less than $3,000,000 on terms acceptable to the holders of a majority of the issued and outstanding common stock at such time; or (iii) upon the closing of a public offering. Such conversion will utilize the same conversion rate as described above.

Item 6. The number of shares or total amount of the securities outstanding for each class of security.

Common Stock:

	As of December 31, 2016	As of December 31, 2015
Number of shares authorized	150,000,000	150,000,000
Number of shares outstanding	36,058,201	36,058,201
Freely tradable shares	5,881,048	5,881,048
Total number of beneficial shareholders	36	36

Convertible Preferred Stock – Series A:

	As of December 31, 2016	As of December 31, 2015
Number of shares authorized	75,000	75,000
Number of shares outstanding	24,390	24,390
Freely tradable shares	-	-
Total number of beneficial shareholders	11	11

Part C – Business Information

Item 7. The name and address of the transfer agent.

The transfer agent of our common stock is:
Continental Stock Transfer & Trust Company
17 Battery Place
New York, New York 10004
Phone: (212) 509-4000

Continental Stock Transfer has registered under the Securities Exchange Act of 1934. The regulatory authority for the transfer agent is the Securities and Exchange Commission and the New York State Banking Department.

Item 8. The nature of the issuer's business

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 70% owned by us. We formed WellQuest of Oklahoma, Inc., a wholly owned subsidiary, in the state of Oklahoma on March 5, 2013. Our fiscal year end date is December 31st. Our primary SIC Code is 8090.

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.

Our integrative medical center is open daily from 8 am to 8 pm (noon to 6 pm on Sunday), providing our clients with the ability to be seen and treated seven days a week. We offer our services with and without appointments, corporate wellness and occupational health services for business, preventive health alternatives (such as life-style counseling, weight loss and nutritional counseling, fitness counseling, vitamin and supplement therapies and disease management counseling) and aggressive medical aesthetics (such as laser treatments, injections, chemical peels and therapeutic massages). Utilizing electronic medical records, digital radiology and diagnostic testing, and customer service protocols, we intend to brand and replicate the service center in demographically selected metropolitan areas. We manage the physician practices, own and lease certain medical equipment and personnel services, own and operate preventive care products and services and own and manage medical spa services and product sales.

Our service concept targets segments of metropolitan areas in the United States with household incomes above $75,000, business occupational healthcare and wellness needs, wellness oriented consumers and those seeking aesthetic/skincare improvements. Health insurance companies are billed for allowed medical services and cash or credit cards are accepted for non-covered services.

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 Medical & Wellness Corporation's majority owned subsidiary, 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 medical practices in the newly constructed 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 PCP of Tulsa and all expenses associated from the conduct of the practice. WellQuest of Tulsa receives a monthly management fee of 7.5% of the practice's net revenues, a monthly 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. All remaining profits are paid to PCP of Tulsa.

WellQuest determined that PCP of Tulsa 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.

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.

Neither the Company nor any predecessor has:

- Been in bankruptcy, receivership, or any similar proceeding;
- Recognized any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets;
- Realized any change of control;
- Declared or executed a recapitalization, merger, acquisition, spin-off, or re-organization; or
- Been a shell company.

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. As of December 31, 2016, we are not current on monthly payments to the bank regarding these loans. Additionally, under the terms of the notes issued thereunder, we are obligated to maintain a debt service coverage ratio of 1.25:1. As of December 31, 2016, we were not in compliance with the debt service coverage ratio and continue to remain non-compliant. If the Company is not able to resume monthly payments on these loans and 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.

Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise that could 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 effect on our business, financial condition or operating results.

Governmental Regulations

The healthcare industry is subject to extensive and frequently changing federal, state and local regulations. Changes in applicable laws or any failure to comply with existing or future laws, regulations or standards could have a material adverse effect on our results of operations, financial condition, business and prospects. We believe our current arrangements and practices are in material compliance with applicable laws and regulations, but there can be no assurance that we are in compliance with all applicable existing laws and regulations or that we will be able to comply with new laws or regulations.

At the current time, we, AMWPA and PCP of Tulsa comply with all Arkansas and Oklahoma laws pertaining to the practice of medicine, physician licensure, registration of ancillary laboratory and radiology services and the licensure of all allied health personnel we employ. There are no Certificate of Need laws in the State of Arkansas or Oklahoma applying to physician office practices. We, AMWPA and PCP of Tulsa provide outpatient services and are therefore not involved in utilization review activities. The practices are certified to participate in the Medicare program for their services. PCP of Tulsa does participate in the state of Oklahoma Medicaid programs. The failure to obtain, renew or maintain any of the required licenses, registrations or certifications could adversely affect our business.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, governs electronic healthcare transactions and the privacy and security of medical records and other individually identifiable patient data. Any failure to comply with HIPAA could result in criminal penalties and civil sanctions.

A component of our business relies on reimbursement by government payors, such as state employee benefit plans, and that business is subject to particularly pervasive regulation by those agencies. These regulations impose stringent requirements for provider participation in those programs and for reimbursement of products and services. Additionally, we are subject to periodic audits or investigations by the Centers for Medicare and Medicaid Services, or CMS, and/or its intermediaries, of our compliance with those requirements, and any deficiencies found may be extrapolated to cover a larger number of reimbursement claims. Additionally, many applicable laws and regulations are aimed at curtailing fraudulent and abusive practices in relation to those programs. These rules include the illegal remuneration provisions of the Social Security Act (sometimes referred to as the "Anti-Kickback" statute), which impose criminal and civil sanctions on persons who knowingly and willfully solicit, offer, receive or pay any remuneration, whether directly or indirectly, in return for, or to induce, the referral of a patient covered by a federal healthcare program to a particular provider of healthcare products or services. Related federal laws make it unlawful, in certain circumstances, for a physician to refer patients covered by federal healthcare programs to a healthcare entity with which the physician and/or the physician's family have a financial relationship. Additionally, a large number of states have laws similar to the federal laws aimed at curtailing fraud and abuse and physician "self-referrals." These rules have been interpreted broadly such that any financial arrangement between a provider and potential referral source may be suspect. While we believe our business arrangements are in compliance with these laws and regulations, the government could take a contrary position or could investigate our practices.

The current legislative environment seems determined to make some substantial changes to the Patient Protection and Affordable Care Act. Although some structural and policy issues may change, we anticipate insurance premiums to remain high; patient deductibles to remain high; and businesses and individuals to be paying out of pocket for their primary healthcare. Although most people will have insurance, many will be underinsured. This will create an increasing demand for the costs and value of primary care medical services. At the same time, businesses are looking at self-insurance, cost savings and ways to improve the wellness of their workforce. We believe all of these factors will make WellQuest's expanded primary care, prevention and access an increasing value in our market places.

In addition to the laws described above, the Federal False Claims Act imposes civil liability on individuals or entities that submit false or fraudulent claims for payment to the government. HIPAA created two new federal crimes: "Healthcare Fraud" and "False Statements Relating to Healthcare Matters." The Healthcare Fraud statute prohibits knowingly and willfully executing a scheme or artifice to defraud any healthcare benefit program. The False Statements Relating to Healthcare Matters statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact by any trick, scheme or device or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. The Federal False Claims Act allows actions to be brought on the government's behalf by individuals under the Federal False Claims Act's "qui tam" provision. Violation of these and other applicable rules can result in substantial fines and penalties, required repayment of monies previously recognized as income, as well as exclusion from future participation in government-sponsored healthcare programs.

There can be no assurance that we will not become the subject of a regulatory or other investigation or proceeding or that our interpretations of applicable laws and regulations will not be challenged. The defense of any such challenge could result in adverse publicity, substantial cost to us and diversion of management's time and attention. Thus, any such challenge could have a material adverse effect on our business, regardless of whether it ultimately is sustained.

Research and Development

The development of our health management programs and refinements to our operations are the result of cooperative efforts of our information technology, clinical, operating and marketing staffs. Currently, there are no formal clinical research activities which we conduct. The Medical Directors and our staff members engage in development of protocols and specific programs that integrate nutrition, wellness, prevention and nutraceuticals with conventional medical services. All activities are included in the responsibilities of the existing staff and budget.

Employees

As of March 3, 2017, we had 38 employees, of which 30 are full-time and 8 are part-time at our Northwest Arkansas facility and we have 11 employees, of which 8 are full-time and 3 are part-time at our Tulsa facility. All physician services are provided by physicians, physician's assistants, and nurse practitioners employed by AMWPA or PCP of Tulsa and are not included in the number of employees disclosed above. We consider our relations with our employees to be good.

Compliance with Environmental Laws

Any costs or effects associated with compliance with environmental laws are incidental and not material to our operations.

Item 9. The nature of products or services offered.

We own and operate two medical aesthetics businesses, retail skincare and nutraceutical product businesses and a practice management business. In addition, we own the long-term lease for our center and have completed improvements in the facility that houses the aesthetics business, the retail business and the medical practice of AMWPA and we own the facility constructed in Tulsa, Oklahoma during 2013 that houses the aesthetics business, the retail business and the medical practice of PCP of Tulsa. We own all of the equipment utilized in the aesthetics and the medical practices, and we employ all non-physician employees who work in the aesthetics departments, the medical practices and the management company.

Our business model depends primarily upon a retail market approach for generating customers. We generate business through marketing and advertising, direct sales of corporate wellness and occupational medical services to companies (flu shots, worker injury treatment services, drug testing, and health promotion programs), public relations efforts with local charities, city and county organizations, hospitals and medical providers, networking and promotional events and open houses. Internal marketing includes brochures, posters, magazines, health promotion articles, and educational materials that point to our services. The integrated service areas of the sites (medical clinic, wellness services and medical spa) actively cross educate clients on the services available within the service site. Once we have a new client, client follow-up, client referral programs and return visits are utilized to maintain and grow our business. To assure broad access of insured clients in the medical service area, we participate in contracts with virtually all commercial health insurance plans and company self-insured health plans in the market, and, in the Medicare Program, making our services fully reimbursable for many of the clients who choose us. At the present time, we do not participate in pre-paid or HMO plans, since we do not believe there is a significant presence of those plans in our market.

Competitors

We face competition from numerous healthcare service organizations, ranging from small independent local doctor and wellness offices to larger companies with offices nationwide. We are not aware of any other company that provides the specific integrated range of services we provide, and as a result, we believe our competitors may compete against us in one or two of our three main services provided. At the present time, we believe that there are no dominant competitors in the integrated medical healthcare, preventive/wellness and medical skin-care services but we would classify regional competitors as St. John's Health Systems, Saint Francis Health Systems, HillCrest Healthcare System and various independent primary care offices and urgent care centers (in the Tulsa market), and Mana Medical Associates, Northwest Health Systems, Mercy Medical Clinics and various Wellness and Skin Therapy Centers (in the Arkansas market) and national competitors such as the Radiance MedSpa Franchise Group and Sona Med Spas.

Item 10. The nature and extent of the issuer's facilities.

We maintain our principal office at 3400 SE Macy Rd., #18, Bentonville, Arkansas 72712. Our telephone number at that office is (479) 845-0880 and our facsimile number is (479) 845-0887. Our office space in Northwest Arkansas is leased with a base cost of $15,256 per month that ran through September 2015 with options for additional lease terms. The space consists of approximately 6,956 square feet. Additionally, we lease an additional two spaces totaling 2,900 square feet at a cost of $3,400 per month for administrative and billing services which were previously housed in the medical clinic service space. The leases for these spaces ran through August and September 2015. Our office space in Tulsa, Oklahoma is owned by us. The space consists of approximately 10,414 square feet.

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.

Should we need additional space in Northwest Arkansas or Tulsa due to the continued growth of our medical services, we do not anticipate any difficulty securing alternative or additional space on terms acceptable to us.

Part D – Management Structure and Financial Information

Item 11. The name of the chief executive officer, members of the Board of Directors, as well as control persons

Names:	Ages	Titles:	Board of Directors
Steve Swift	70	Chief Executive Officer	Director
Josh Estes	37	Chief Financial Officer	
Robert J. Zasa	66		Director
Christopher Skoog	52		Director

The business address for all officers and directors is 3400 SE Macy Road, Suite 18, Bentonville, Arkansas 72712. The number and class of the issuer's securities beneficially owned by each officer and director is disclosed in Item 14 of this report.

None of the foregoing persons have, in the last five years, been the subject of the following:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Currently there are five seats on our Board of Directors. Officers are elected by the Board of Directors and serve until their successors are appointed by the Board of Directors. Biographical resumes of each officer and director are set forth below.

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.

Steve Swift has been our President, CEO and Chairman of the Board of Directors since November 2004. Between July 2004 and October 2004, Mr. Swift worked independently towards the development of the Company. Between May 2000 and June 2004, Mr. Swift was the Chief Administrative Officer and Executive Director of Springer Clinic, Inc., a Tulsa, Oklahoma based medical treatment facility. Mr. Swift received his Bachelor of Arts degree in Sociology from Texas Christian University in 1970, his Masters in Healthcare Administration from Trinity University in 1974 and did his residency at Baylor University Medical Center in 1973-1974.

Josh Estes has been our Chief Financial Officer since October 2011. Prior to joining WellQuest Medical & Wellness Corporation as Chief Financial Officer, Mr. Estes worked for Ernst & Young LLP from July 2003 to October 2005 and for HoganTaylor LLP from October 2005 to July 2010. In addition to working for WellQuest, Mr. Estes is also currently a partner with Becky Estes & Company, P.A. Mr. Estes has nearly thirteen years of experience providing audit and accounting services to publicly and privately held clients in numerous industries, including medical, manufacturing, retail, poultry and transportation. Mr. Estes is a Certified Public Accountant. He received his Bachelor of Science in Business Administration from the Sam Walton College of Business at the University of Arkansas in 2002, and his Master of Accountancy from the Sam Walton College of Business at the University of Arkansas in 2003.

Robert J. Zasa has been a member of the Board of Directors since April 2005. Since June 1996, Mr. Zasa has been the founder and Partner of Woodrum/Ambulatory Systems, a Los Angeles, California based ambulatory and outpatient care company. Mr. Zasa was the founder, President and CEO of Premier Ambulatory Systems, Inc., an owner and operator of ambulatory surgery centers, Vice President of American Medical International and Chief Operating Officer of AMI Ambulatory Surgery Centres, Inc. Mr. Zasa is an Adjunct Faculty Member of the Graduate Program in Health Services Administration at the University of Alabama in Birmingham, and serves as a guest lecturer on ambulatory healthcare topics at the UCLA School of Public Health. Mr. Zasa earned a Master's of Science in Hospital and Health Administration from the University of Alabama Birmingham.

Christopher R. Skoog has been a member of the Board of Directors since January 2015. Mr. Skoog is currently a private investor and entrepreneur. He served as Senior Vice President of EPE Holdings, LLC. Mr. Skoog served as Senior Vice President of Natural Gas Services & Marketing - Enterprise Products Holdings LLC from November 22, 2010 until April, 2012. He served as the Senior Vice President - Natural Gas Services and Marketing group of Enterprise Products GP LLC - General Partner of Enterprise Products Partners LP. from July 2, 2007. Mr. Skoog served as the President of interstate natural gas pipelines segment at ONEOK Partners, L.P. He was responsible for all of Enterprise's existing natural gas supply and marketing activities, including supply, origination and optimization. He served as the President of Interstate Natural Gas Pipelines since April 2006. Mr. Skoog was responsible for all commercial, operational and regulatory functions of the Partnership's natural gas businesses and coordinated the Partnership's business development initiatives. Mr. Skoog served as an Executive Vice President of Transcan Northwest Border Ltd. (also called as Northern Plains Natural Gas Company LLC), a General Partner of ONEOK Partners, L.P., Northern Border Partners LP, Northern Border Pipeline Co. and NBP Services LLC since February 1, 2005. Mr. Skoog served as President, ONEOK Energy Marketing and Trading Company II., a subsidiary of ONEOK Inc. from 1999 to February 1, 2005. Mr. Skoog served as Vice President, ONEOK Gas Marketing Company from 1995 to 1999. He has more than 20 years of managerial experience in natural gas marketing, has established a long track record of developing programs that increase and maximize the use of company assets to meet customer needs. Mr. Skoog received his Bachelor of Science in Business Administration from Drake University in Des Moines, Iowa, and also attended Ealing College of Higher Education in London, England.

Audit Committee and Audit Committee Financial Expert

Our Board of Directors does not currently have any committees. All functions ordinarily performed by committees are performed by the Board of Directors as a whole.

Summary Compensation Table

The following tables set forth compensation information for our Chief Executive Officer for the fiscal years ended December 31, 2016 and 2015.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Nonequity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)		Total ($)
Steve Swift, President and CEO	2016	$ 120,000	$ -	$ -	$ -	$ -	$ -	$ 32,101	(1)	$ 152,101
	2015	$ 120,000	$ -	$ -	$ 6,300	$ -	$ -	$ 40,088	(2)	$ 166,388

(1) Includes $27,179 for health, dental, life and key-man life insurance and $4,922 for a vehicle lease.

(2) Includes $35,166 for health, dental, life and key-man life insurance and $4,922 for a vehicle lease.

Employment Agreements

On January 1, 2005, we entered into an employment agreement with Steve Swift, our President and CEO. Pursuant to the terms of the agreement, Mr. Swift was employed by us for an initial term of five years from the effective date of the agreement. The agreement automatically renews for successive two year terms. The current term expires January 1, 2018. Mr. Swift continues to serve the role of President and CEO with the approval of the Board of Directors, and it is anticipated that his contract will be renewed under the same, or similar, terms by action of the Board of Directors. Mr. Swift received an annual base salary of $180,000 a year, $60,000 of which was deferred due to debt covenant restrictions. Mr. Swift is entitled to receive an increase to his base salary and receive certain bonuses to be determined by the Board of Directors based upon the performance of the Company during each calendar year. Mr. Swift's salary and bonus schedule is reviewed by the Board of Directors on an annual basis. Mr. Swift shall be entitled to four weeks paid vacation. The Company may terminate his employment (i) with cause, upon a determination by a majority of the Board of Directors or (ii) without cause, at any time, for any reason whatsoever and without prior notice. Mr. Swift may voluntarily terminate his employment at any time for cause or without cause upon not less than 30 days written notice. During the term of his employment and for a period thereafter, Mr. Swift will be subject to noncompetition and nonsolicitation provisions, subject to standard exceptions. The agreement was amended on October 29, 2008, pursuant to which Mr. Swift's annual base salary was reduced to $120,000 per year until the Board determines otherwise.

Option Grants in Last Fiscal Year

The following table sets forth information regarding the number of stock options granted to named executive officers during 2015. No stock options were granted in 2016.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value ($/Sh)
Steve Swift	February 18, 2015	225,000	$ 0.028	$ 0.028

Outstanding Equity Awards at Fiscal Year-End Table

The following table sets forth information for the named executive officers regarding the number of shares subject to both exercisable and unexercisable stock options, as well as the exercise prices and expiration dates thereof, as of December 31, 2016.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Steve Swift	233,334	-	-	$0.0088	01/23/2017	-	-	-	-
Steve Swift	366,667	83,333	-	$0.0560	05/14/2024	-	-	-	-
Steve Swift	141,667	83,333	-	$0.0280	02/18/2025	-	-	-	-

Director Compensation

Our directors are elected by the vote of a majority in interest of the holders of our voting stock and hold office until the expiration of the term for which he or she was elected and until a successor has been elected and qualified.

A majority of the authorized number of directors constitutes a quorum of the Board of Directors for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board of Directors individually or collectively consent in writing to the action.

In 2016, no compensation was provided to our directors for services to our company.

Related Party Transactions/Conflicts of Interest among the Issuer, the Chief Executive Officer, members of the board of directors, as well as control persons.

The following related party transactions are fully disclosed in the attached financial statements and related footnotes:

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 was scheduled to mature December 31, 2015. In January 2016, the maturity date of the note payable was extended to December 31, 2016. The note payable does not require specified monthly payments. No payments were made on the amount borrowed in 2015 or 2016. Since the maturity date of this note payable has passed, the outstanding balance is due on demand.

During the years ended December 31, 2016 and 2015, the Company incurred expenses of $3,881 and $13,814, respectively, to the law firm of Newton, O'Connor, Turner & Ketchum, of which John O'Connor, one of our directors in 2016, is the Chairman.

The Company leases a vehicle under an operating lease that expires in July 2017. The vehicle is leased from Steve Swift, President and CEO. The monthly lease payment is $410.

Included in the current liabilities section of the consolidated balance sheets are amounts due to physicians and related parties. At December 31, 2016 and 2015, the Company owes $15,580 and $7,254, respectively, in interest to related parties. At December 31, 2016 and 2015, the Company owes approximately $161,000 and $106,000, respectively, to physicians.

During 2013, the Company borrowed $25,500 from a related party. 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.

During 2014, the Company issued to two members of the Company's board of directors convertible debentures totaling $28,000. These funds were used for operations. Interest incurred on the debentures is 10% and the debentures mature December 31, 2015. 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 December 31, 2016, the balance on these debentures was $6,500. In January 2016, the maturity date of these debentures was extended to December 31, 2016. Since the maturity date of these debentures has passed, the outstanding balance is due on demand.

During 2014, WellQuest issued to a member of the board of directors a convertible debenture for $60,000. These funds were used for operations. Interest incurred on the debenture is 10% and the debenture matures 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 per share. In January 2016, the maturity date of these debentures was extended to December 31, 2016. Since the maturity date of this debenture has passed, the outstanding balance is due on demand.

Item 12. Financial information for the issuer's most recent fiscal period

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Balance Sheets

December 31, 2016 and 2015
(Unaudited)

	2016	2015
Assets		
Current assets:		
Cash	$ 21,164	$ 23,401
Accounts receivable, less allowances of $493,520 and $422,059 at December 31, 2016 and 2015, respectively	376,255	298,125
Other current assets	123,941	199,949
Total current assets	521,361	521,475
Property and equipment, net	2,624,605	2,713,342
Other assets	2,730	2,730
	$ 3,148,696	$ 3,237,547
Liabilities and Deficit		
Current liabilities:		
Accounts payable	$ 492,115	$ 394,400
Accrued liabilities	931,823	562,582
Due to physicians and related parties	258,522	234,778
Current maturities of long-term debt, net of debt issuance costs	2,386,201	2,408,423
Current maturities of long-term debt – related parties	74,576	44,576
Current obligations under capital leases	17,155	15,404
Subordinated debentures payable to stockholders	267,913	191,500
Total current liabilities	4,428,305	3,851,663
Long-term obligations under capital leases, less current portion	64,076	81,231
Long-term debt, less current portion	1,100,882	1,129,180
Total liabilities	5,593,263	5,062,074
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 December 31, 2016 and 2015	244	244
Common stock - $0.001 par value; authorized 150,000,000 shares; 36,058,201 shares issued and outstanding at December 31, 2016 and 2015	35,788	35,788
Additional paid-in capital	2,241,609	2,235,172
Warrants	30,000	30,000
Accumulated deficit	(4,630,296)	(4,133,242)
Total WellQuest Medical & Wellness Corporation stockholders' deficit	(2,322,655)	(1,832,038)
Noncontrolling interest	(121,913)	7,511
Total deficit	(2,444,567)	(1,824,527)
Total liabilities and deficit	$ 3,148,696	$ 3,237,547

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Statements of Operations

Years ended December 31, 2016 and 2015
(Unaudited)

	2016	2015
Net revenues	$ 5,356,331	$ 6,055,863
Operating expenses:		
Salaries, wages and benefits	1,915,723	2,275,834
Rents and facility expenses	387,434	393,464
Medical direct expenses, excluding salaries, wages and benefits	2,572,334	2,794,617
Spa direct expenses, excluding salaries, wages and benefits	207,770	269,797
General corporate expenses	399,928	474,868
Depreciation and amortization	212,177	214,960
Total operating expenses	5,695,366	6,423,540
Operating loss	(339,035)	(367,677)
Interest expense	(274,565)	(231,115)
Loss before income taxes	(613,600)	(598,792)
Provision for income taxes – current	1,849	20,314
Loss before preferred returns	(615,449)	(619,106)
Preferred returns	60,925	58,122
Net loss	(676,374)	(677,228)
Loss attributable to noncontrolling interest	179,320	195,693
Net loss applicable to common stock of WellQuest Medical & Wellness Corporation	$ (497,054)	$ (481,535)
Loss per common share:		
Basic and diluted	$ (0.014)	$ (0.014)
Weighted average number of common shares and dilutive common share equivalents outstanding:		
Basic and diluted	36,058,201	35,870,187

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Statements of Deficit

Years ended December 31, 2016 and 2015
(Unaudited)

	Common Stock		Series A Convertible Preferred		Additional Paid-in		Accumulated	Noncontrolling	Total
	Shares	$	Shares	$	Capital	Warrants	Deficit	Interest	Deficit
Balance, December 31, 2014	35,776,951	$ 35,777	25,515	$ 255	$ 2,210,823	$ 30,000	$ (3,651,707)	$ 203,204	$ (1,171,648)
Net loss	-	-	-	-	-	-	(481,353)	(195,693)	(677,228)
Conversion of preferred stock to common stock	281,250	11	(1,125)	(11)	-	-	-	-	-
Stock-based compensation	-	-	-	-	24,349	-	-	-	24,349
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	-	-	-	-	-	-	(497,054)	(179,320)	(676,374)
Capital contributions	-	-	-	-	-	-	-	49,896	49,896
Stock-based compensation	-	-	-	-	6,437	-	-	-	6,437
Balance, December 31, 2016	36,058,201	$ 35,788	24,390	$ 244	$ 2,241,609	$ 30,000	$ (4,630,296)	$ (121,913)	$ (2,444,568)

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015
(Unaudited)

	2016	2015
Cash Flows from Operating Activities		
Net loss	$ (676,374)	$ (677,228)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	212,177	214,960
Provision for uncollectible accounts	71,461	-
Amortization of deferred financing costs	7,658	7,658
Stock-based compensation	6,437	24,349
Preferred returns	60,925	58,122
Change in assets and liabilities:		
Accounts receivable	(149,608)	213,424
Other current assets	76,025	(61,839)
Other assets	-	(250)
Accounts payable and accrued liabilities	406,029	135,400
Due to physicians and related parties	23,744	50,505
Net cash provided by (used in) operating activities	38,474	(34,899)
Cash Flows from Investing Activities		
Purchases of property and equipment	(56,656)	(76,118)
Cash Flows from Financing Activities		
Repayment of long-term borrowings and obligations under capital leases	(140,364)	(130,507)
Borrowings on long-term debt	-	153,701
Funding from capital lease	-	96,635
Borrowings on related party notes payable	30,000	-
Borrowings on related party subordinated debentures	76,413	-
Capital contributions by noncontrolling interest	49,896	-
Net cash provided by financing activities	15,945	119,829
Net increase (decrease) in cash	(2,237)	8,812
Cash, beginning of year	23,401	14,589
Cash, end of year	$ 21,164	$ 23,401
Noncash Financing Activities		
Capital lease funding to purchase property and equipment	$ 66,782	$ 51,013
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 180,577	$ 238,599
Cash paid for income taxes	$ 7,338	$ 5,019

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

WELLQUEST MEDICAL & WELLNESS CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015
(Unaudited)

1. *Organization and Business Description*

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 one 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 commence operations at the Tulsa facility. As of December 31, 2016, the Company does not have any available borrowing capacity on any of its outstanding loans. Additionally, the Company has not made any loan payments on its loans with banks since May 2016. The Company is currently employing the following strategic initiatives to drive awareness of our service offerings in that market with the goal of increasing our revenues:

- 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, worksite injury analysis and corporate wellness solutions.
- The Company is exploring additional revenue sources such as allergy services, hormone replacement services, diagnostic testing services and advanced lab services.
- The Company is pursuing joint venture relationships with other medical providers and medical service companies to increase revenues with minimal incremental costs.

The Company's historical operating results indicate substantial doubt exists related to the Company's ability to continue as a going concern. We believe that the actions discussed above are probable of occurring and mitigating the substantial doubt raised by our historical operating results and satisfying our estimated liquidity needs 12 months from the issuance of the financial statements. However, we cannot predict, with certainty, the outcome of our actions to generate liquidity, including the availability of additional debt financing, or whether such actions would generate the expected liquidity as currently planned.

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 expired 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 $245,000 of preferred returns have been accrued as of December 31, 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. *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.

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. 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 the Company. The Company charges any difference between the amount filed and the amount paid against the allowance. The Company estimates the collectability of receivables based on the Company's collection history. The Company recorded contractual adjustments and bad debt expense of approximately $2,815,000 and $3,302,000 in 2016 and 2015, respectively. These amounts are considered in the determination of net revenue on the consolidated statements of operations. Adjustments to the allowance for doubtful accounts for December 31, 2016 and 2015 are as follows:

Description	Balance at Beginning of Period	Charged to Net Revenue	Deductions	Balance at End of Period
Year ended December 31, 2016:				
Allowance for doubtful accounts				
Contractual adjustments	$ 39,885	$ 2,436,185	$ 2,429,432	$ 46,638
Bad debt expense	382,174	379,037	314,329	446,882
	$ 422,059	$ 2,815,222	$ 2,743,761	$ 493,520
Year ended December 31, 2015:				
Allowance for doubtful accounts				
Contractual adjustments	$ 50,068	$ 2,870,098	$ 2,880,281	$ 39,885
Bad debt expense	479,749	431,703	529,278	382,174
	$ 529,817	$ 3,301,801	$ 3,409,559	$ 422,059

Other Current Assets

Other current assets at December 31, 2016 and 2015 include $114,656 and $127,396, respectively, of medical supplies, cosmetics, and skincare products. These assets are recorded at the lower of cost or market on a first in, first out basis.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives of furniture and equipment are estimated to range from five to fifteen years, useful lives of leasehold improvements are estimated to be ten years and the useful life of the building is 39 years. Gains or losses on sale or other dispositions of property and equipment are credited or charged to income in the period incurred. Repairs and maintenance costs are charged to income in the period incurred, unless it is determined that the useful life of the respective asset has been extended.

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 revenues of the Company are 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.

Income Taxes

Deferred income taxes are computed using the liability method and are provided on all temporary differences between the financial basis and the tax basis of the Company's assets and liabilities and tax carryforwards. Future tax benefits are recognized to the extent that realization of those benefits is considered to be more likely than not. A valuation allowance is provided for deferred tax assets for which realization is not likely.

Share-Based Payment and Stock-Based Compensation Plan

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 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.

On April 4, 2008, the stockholders of the Company adopted the WellQuest Medical & 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.

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of its options, as this model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Estimated volatility is calculated based on actual historical volatility of the Company’s common stock from the Company’s initial public offering date to the grant date. The Company’s dividend yield assumption is based on the expected dividend yield as of the grant date. Expected life is calculated based on the simplified method for ‘‘plain vanilla’’ options, due to limited available exercise information. The Company expenses the cost of options granted over the vesting period of the option based on the grant-date fair value of the award. For the years ended December 31, 2016 and 2015, the Company recognized compensation expense of $6,437 and $24,349, respectively.

No stock options were granted by the Company in 2016. The following table details the options granted to certain members of the board of directors and management during 2015 and the assumptions used in the Black-Scholes option valuation model for those grants:

Grant Date	Number of Shares	Exercise Price	Risk-Free Interest Rate	Estimated Volatility	Dividend Yield	Forfeiture Rate	Expected Life
Feb-15	750,000	$ 0.028	2.07%	632%	None	0%	10 years

The following table provides information as of December 31, 2016, regarding shares outstanding and available for issuance under our existing stock option plan:

	Weighted Average				
	Number	Exercise Price	Fair Value of Options	Remaining Contractual Life	Aggregate Intrinsic Value
Balance, December 31, 2014	5,836,601	$ 0.02556	-	-	-
Granted	750,000	$ 0.02800	-	-	-
Forfeited	(300,000)	$ 0.03667	-	-	-
Balance, December 31, 2015	6,286,601	$ 0.02921	-	-	-
Forfeited	(4,513,267)	$ 0.04103	-	-	-
Balance, December 31, 2016	1,773,334	$ 0.03163	-	4.88	-
Exercisable, December 31, 2016	1,591,666	$ 0.03045	-	4.53	-

As of December 31, 2016, there was $3,101 of unrecognized compensation expense related to nonvested share-based compensation for options granted in 2014 and 2015. This cost will be recognized on a straight-line basis during 2017 and 2018.

Deferred Financing Costs

Deferred financing costs incurred in association with the issuance of debt are amortized over the life of the corresponding loan. As of December 31, 2016 and 2015, the Company had net deferred financing costs of $87,686 and $95,344, respectively. These deferred financing costs have been presented net of their associated debt on the Consolidated Balance Sheets. Amortization of $7,658 was recorded during the years ended December 31, 2016 and 2015, 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 anti-dilutive, 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 anti-dilutive 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 is computed, even if an entity has net income after adjusting for discontinued operations, an extraordinary item or the cumulative effect of an accounting change. Therefore, Basic and Diluted EPS are calculated in the same manner for the years ended December 31, 2016 and 2015, as there were losses from continuing operations.

Anti-dilutive and/or nonexercisable warrants, convertible preferred stock, convertible subordinated debentures, and unexercised stock options represent approximately 11,100,000 and 14,500,000 common shares at December 31, 2016 and 2015, respectively, which may become dilutive in future calculations of EPS.

Advertising

Advertising costs are expensed as incurred. Advertising expenses approximated $41,000 and $62,000 in 2016 and 2015, respectively.

Recent accounting pronouncements

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update which replaces the current lease accounting standard. The update will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of expense recognized and expected to be recognized from existing contracts. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is currently evaluating the effect the update will have on our consolidated financial statements but expect the update will not have a material impact on our consolidated financial statements.

Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued an accounting standards update which requires management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements are issued. If substantial doubt exists, additional disclosures are required. The Company's assessment of our ability to continue as a going concern is further discussed in the "Management’s Plans" paragraph above. The adoption of the new standard did not have a material impact on the Company’s consolidated financial position, results of operations, cash flows or disclosures.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standards update which replaces the current revenue recognition standards. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard was initially released as effective for fiscal years beginning after December 15, 2016, however, the FASB has decided to defer the effective date of this accounting standard update for one year. Early adoption of the update is permitted, but not before the original date for fiscal years beginning after December 15, 2016. The update may be applied retrospectively for each period presented or as a cumulative-effect adjustment at the date of adoption. The Company continues to evaluate the adoption of this standard.

Subsequent events

Management has evaluated subsequent events through March 31, 2017, the date the financial statements were available to be issued.

3. *Property and Equipment*

The following is a summary of property and equipment as of December 31:

	2016	2015
Furniture and equipment	$ 1,433,785	$ 1,310,345
Building	1,588,028	1,588,028
Land	792,058	792,058
Leasehold improvements	132,649	132,649
	3,946,520	3,823,080
Less accumulation depreciation	(1,321,915)	(1,109,738)
Property and equipment, net	$ 2,624,605	$ 2,713,342

At December 31, 2016, property and equipment includes equipment acquired under capital lease with a total cost of $92,470. Amortization of the property and equipment acquired under capital lease of $16,566 and $805 is included in depreciation expense for the years ended December 31, 2016 and 2015, respectively.

4. *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 December 31, 2016, the balance on the loan with the bank was $1,451,964 and the balance on the SBA loan was $962,155. Additionally, the loan with the bank requires the Company to maintain a debt service coverage ratio of 1.25 to 1. As of December 31, 2016, the Company was not in compliance with the debt service coverage ratio. The bank has not provided a waiver of said covenant; therefore, the loan with the bank is included in current liabilities at December 31, 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 December 31, 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 December 31, 2016, the Company was not in compliance with the debt service coverage ratio. The bank has not provided a waiver of said covenant; therefore, this loan is included in current liabilities at December 31, 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 December 31, 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 December 31, 2016, the two loans had a total outstanding balance of $23,643.

In October 2016, the Company obtained a loan from a financing company totaling $66,782 to purchase computer equipment and medical equipment. At December 31, 2016, the loan had an outstanding balance of $62,829.

The annual maturities of long-term debt below are based on required monthly payments under the existing loans discussed above. No adjustments to the annual maturities of long-term debt have been made due to the Company's failure to comply with the debt service covenant ratio discussed above.

Year	Annual Payment Amount
2017	$ 270,777
2018	287,689
2019	299,136
2020	243,706
2021	241,277
Thereafter	2,232,184
Total long-term debt	3,574,769
Less net deferred financing costs	87,686
	$ 3,487,083

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 was scheduled to mature December 31, 2015. In January 2016, the maturity date of the note payable was extended to December 31, 2016. The note payable does not require specified monthly payments. No payments were made on the amount borrowed in 2015 or 2016. Since the maturity date of this note payable has passed, the outstanding balance is due on demand.

During 2013, the Company borrowed $25,500 from a related party. 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. During 2012, $242,000 of the debentures were forgiven by Regent Private Capital. Additionally, during 2012, $123,497 of debentures held by the Company's directors were converted to 1,389,478 shares of common stock. The debentures were converted at $0.08888 per share in accordance with the debenture agreements. As part of the conversions, the debenture holders forfeited $147,000 of warrants issued with the debentures. Pursuant to the debenture agreements, the holders had the option to either exercise the warrants or convert the debentures. As of December 31, 2016, the Company has three 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. At this time, the Company is working with the debenture holders to extend the maturity dates to December 31, 2017. The Company expects the maturity dates to be extended under similar terms. Since the maturity date of these debentures has passed, the outstanding balances are due on demand.

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, 2015. 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 December 31, 2016, the balance on these debentures was $6,500. In January 2016, the maturity date of these debentures was extended to December 31, 2016. Since the maturity date of these debentures has passed, the outstanding balance is due on demand.

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 per share. At December 31, 2016, the balance on this debenture was $60,000. In January 2016, the maturity date of these debentures was extended to December 31, 2016. Since the maturity date of this debenture has passed, the outstanding balance is due on demand.

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. At December 31, 2016, the balance on these debentures was $76,413.

5. *Lease Commitments*

The Company leased office space in Bentonville, Arkansas under two operating leases that expired in August and September 2015. 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. Total expense related to these leases was $167,616 and $205,143 for the years ended December 31, 2016 and 2015, respectively.

The Company leases a vehicle under an operating lease expiring July 2017. The vehicle is leased from the Company's CEO. Total expense incurred in 2016 and 2015 related to this lease was $4,922.

On October 21, 2015, the Company entered into a capital lease with a total value of $96,635. These funds will be used to purchase new IT infrastructure, medical equipment and leasehold improvements. The lease requires monthly payments of $2,092 for 60 months that began January 2016 and contains a $1 purchase option at the end of the lease term. The lease is guaranteed by the Company's CEO and a related party.

Future minimum rental payments as of December 31, 2016 are as follows:

	Capital Lease	Operating Leases
2017	$ 25,106	$ 172,536
2018	25,106	171,807
2019	25,106	184,380
2020	25,105	184,380
2021	-	138,285
	100,423	$ 851,388
Less amount representing interest	19,192	
Present value of future minimum lease payments	81,231	
Less – current obligations under capital lease	17,155	
Long – term obligations under capital lease	$ 64,076	

6. *Series A Convertible Preferred Stock*

A summary of the preferred stock at December 31, 2016 is as follows:

	Shares Authorized	Shares Issued	Shares Outstanding	Par Value	Liquidation Value
Series A	75,000	24,390	24,390	$0.01	$ 1,083,894

During 2005, 29,025 shares of the Company's Series A convertible preferred stock ("preferred stock") were issued at $22.22 a share. In 2006, 7,290 shares of preferred stock were issued at $22.22 per share. In 2007, 1,125 shares of preferred stock were issued at $22.22 per share.

Between April 2009 and June 2009, four holders of 11,925 shares of the Company's preferred stock elected to convert the shares to 2,981,250 shares of the Company's common stock.

In September 2015, one holder of 1,125 shares of the Company's preferred stock elected to convert the shares to 281,250 shares of the Company's common stock.

A summary of the rights, preferences, and privileges of the preferred stock is as follows:

Dividends – The holders of the preferred stock shall have no dividend preference over the Company's common stock. In the event the board of directors shall ever declare a dividend, the holders of the preferred stock shall be entitled to participate in such dividend, pro rata, to the same extent as any holder of the common stock on which such dividend may be declared.

Liquidation – In the event of any liquidation, dissolution, or winding-up of the Company (including a change of control), the holders of the preferred stock shall be entitled to receive, out of the remaining assets of the Company, the liquidation value in cash for each of the shares of preferred stock they then hold. These distributions will be made prior to any distributions to other stockholders. Any amounts remaining after such distributions will be distributed to the holders of the common stock and the preferred stock on parity with each other (on an as-converted basis). In the event the Company at any time or from time to time after the original issue date shall declare or pay any dividend on the preferred stock payable in preferred stock, or effect a subdivision or combination of the outstanding shares of preferred stock (by reclassification or otherwise than by payment of a dividend in preferred stock), then and in any such event, the liquidation value shall be proportionately decreased in the case of a stock dividend or subdivision and proportionately increased in the case of a combination of shares effective, in the case of such dividend, immediately after the close of business on the record date for the determination of holders of preferred stock entitled to receive such dividend or, in the case of a subdivision or combination, at the close of business immediately prior to the date upon which such corporate action becomes effective.

Conversion – Holders of shares of preferred stock have the right to convert their shares, at any time, into shares of common stock. The conversion rate is determined by multiplying the number of preferred shares to be converted by $22.22 and dividing the result by the conversion price then in effect (currently $0.08888). At the option of the Company, all (but not less than all) of the shares of preferred stock may be converted into shares of common stock at the then applicable conversion price in any of the following events: (i) upon the Company having positive cumulative earnings before interest, depreciation, taxes and amortization ("EBITDA") of a least $750,000 over four consecutive rolling calendar quarters; (ii) upon the closing of a qualifying offering, I.E., receipt by the Company of proceeds from a private placement of its securities of not less than $3,000,000 on terms acceptable to the holders of a majority of the issued and outstanding common stock at such time; or (iii) upon the closing of a public offering. Such conversion will utilize the same conversion rate as described above.

Voting – The holders of the preferred stock shall be entitled to one vote per share with respect to any matter brought before the stockholders and enjoy the same voting rights as common stockholders.

7. *Common Stock*

Common stockholders are entitled to one vote per share and dividends when declared by the Board of Directors.

Shares Reserved for Future Issuance – As of December 31, 2016 and 2015, the Company has reserved shares of common stock for future issuance for the following purposes:

	2016	2015
Conversion of outstanding preferred stock to common stock	6,097,500	6,097,500
Conversion of subordinated convertible debentures to preferred stock and then to common stock	843,834	843,834
Conversion of subordinated convertible debentures to common stock	2,402,371	1,310,756
Stock options	1,773,334	6,286,601
Total	11,117,039	14,538,691

8. *Income Taxes*

The Company recognized a current income tax provision of $1,849 and $20,314 in 2016 and 2015, respectively, for income taxes owed to the states of Arkansas and Oklahoma. In 2014, the Company had Arkansas net operating loss carryforwards that expired causing income taxes to be owed. Outside of 2012, the Company has generated net operating losses since inception. Thus, the excess of the deferred tax assets over the deferred tax liabilities is offset by a valuation allowance, resulting in no deferred tax benefit for 2016 or 2015. The Company's valuation allowance increased by approximately $169,000 and $289,000 for the years ended December 31, 2016 and 2015, respectively.

The income tax provision for 2016 and 2015 differs from the amount computed by applying the US federal statutory rate of 34% to income before income taxes due primarily to changes in the valuation allowance. As of December 31, 2016, the Company had net operating loss carryforwards of approximately $3.2 million for federal income tax purposes, which are available to reduce future taxable income and will expire beginning in 2025, if not utilized.

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 2016 and 2015, are as follows:

	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	$1,082,000	$ 929,000
Other accruals	262,000	235,000
Valuation allowance	(1,302,000)	(1,133,000)
Net deferred tax assets	42,000	31,000
Deferred tax liability – depreciation and amortization	(42,000)	(31,000)
Net deferred income taxes	$ -	$ -

Since the Company has generated significant net operating losses and there is no assurance that it will be able to utilize its net operating loss carryforwards prior to expiration, management has established a valuation allowance of approximately $1,302,000 and $1,133,000 at

December 31, 2016 and 2015, respectively, to recognize its deferred tax assets only to the extent of its deferred tax liabilities. The Company will continue to evaluate the need for such a valuation allowance in the future.

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.

9. *Benefit Plans*

Employees of the Company are eligible to participate in a 401(k) plan (the Plan) covering all employees after a specified period of service. Employees may elect to make deferral contributions of their salary. The Company will match 50% of the first 8% of employee contributions made to the Plan. In addition, the Company may make discretionary contributions to the Plan to be allocated to participants' accounts pro rata based on compensation. Participants will vest in any Company contributions over a five-year period. Total Company contributions to the Plan for 2016 and 2015 approximated $19,778 and $18,700, respectively.

10. *Related Party Transactions*

During the years ended December 31, 2016 and 2015, the Company incurred expenses of $3,881 and $13,814, respectively, to the law firm of Newton, O'Connor, Turner & Ketchum, of which John O'Connor, one of our directors in 2016, is the Chairman.

The Company leases a vehicle under an operating lease that expires in July 2017. The vehicle is leased from Steve Swift, President and CEO. The monthly lease payment is $410.

Included in the current liabilities section of the consolidated balance sheets are amounts due to physicians and related parties. At December 31, 2016 and 2015, the Company owes $15,580 and $7,254, respectively, in interest to related parties. At December 31, 2016 and 2015, the Company owes approximately $161,000 and $106,000, respectively, to physicians.

Item 13. Financial information for the preceding two fiscal years.

Filings for the preceding two fiscal years can be viewed at http://www.otcmarkets.com/stock/WEQL/filings.

Item 14. Beneficial Owners.

The following table sets forth certain information regarding beneficial ownership of our common and preferred stock as of March 31, 2017.

- By each person who is known by us to beneficially own more than 5% of our common or preferred stock;
- By each of our officers and directors; and
- By all of our officers and directors as a group.

NAME AND ADDRESS OF OWNER (1)	TITLE OF CLASS	NUMBER OF SHARES OWNED (2)	PERCENTAGE OF CLASS (3)
Stephen H.M. Swift	Common Stock	18,550,929	51.45%
Josh Estes	Common Stock	-	0.00%
Curtis L. Rice	Common Stock	2,074,800 (4)	5.76%
John O'Connor	Common Stock	2,055,379	5.70%
Robert Zasa	Common Stock	3,492,711 (5)	9.69%
Christopher Skoog	Common Stock	-	0.00%
All Officers and Directors As a Group (5 persons)	Common Stock	26,173,819 (6)	72.59%
Curtis Rice	Series A Preferred Stock	3,015 (7)	12.37%
Ambulatory Systems Development (8)	Series A Preferred Stock	2,250	9.23%
TerraNova Partners, L.P. (9)	Series A Preferred Stock	4,500	18.45%
Charles C. Stephenson, Jr.	Series A Preferred Stock	4,500	18.45%
Lewis Yarborough	Series A Preferred Stock	2,250	9.23%
Industrial and Commercial Developments Pty, Ltd. (10)	Series A Preferred Stock	3,375	13.84%

(1) Unless otherwise noted, the mailing address of each beneficial owner is 3400 SE Macy Rd., #18, Bentonville, Arkansas 72712.

(2) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to preferred stock, options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of March 31, 2017 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

(3) Based upon 36,058,201 shares of common stock and 24,390 shares of Series A Convertible Preferred Stock issued and outstanding on March 31, 2016.

(4) Includes 2,340 shares of Series A Convertible Preferred Stock owned and 675 shares of Series A Convertible Preferred Stock owned by Rice Investments, LLC, of which Mr. Rice has voting and dispositive power of the shares held by such entity. The 3,015 shares of Series A Convertible Preferred Stock are convertible into 753,750 shares of common stock.

(5) Includes 2,930,211 shares of common stock and 2,250 shares of Series A Convertible Preferred Stock owned by Ambulatory Systems Development, of which Mr. Zasa has voting and dispositive power of the shares held by such entity. The 2,250 shares of Series A Convertible Preferred Stock are convertible into 562,500 shares of common stock.

(6) Includes 5,265 shares of Series A Convertible Preferred Stock that are convertible into 1,316,250 shares of common stock.

(7) Includes 675 shares of Series A Convertible Preferred Stock owned by Rice Investments, LLC, of which Mr. Rice has voting and dispositive

power of the shares held by such entity.

(8) Robert Zasa, one of our directors, has sole voting and dispositive power of the shares held by Ambulatory Systems Development.

(9) Vahan Kololian has sole voting and dispositive power of the shares held by TerraNova Partners, L.P.

(10) Stefan J. Ahrens has sole voting and dispositive power of the shares held by Industrial and Commercial Developments Pty, Ltd.

Item 15. The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure

1. Investment Banker - not applicable

2. Promoters – not applicable

3. Counsel
   Friday Eldredge & Clark, LLP
   3350 S. Pinnacle Hills Pkwy
   Suite 301
   Rogers, AR 72758
   (479) 845-0886

4. Accountant or Auditor – not applicable

5. Public Relations Consultant(s) – not applicable

6. Investor Relations Consultant(s) – not applicable

7. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement - the information shall include the telephone number and email address of each advisor. – not applicable

Item 16. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this report. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 16, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," and elsewhere in this Annual Report that does not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements, and as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for our products, as well as other factors, many or all of which may be beyond our control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements in this report.

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 70% 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.

Year ended December 31, 2016 compared to the year ended December 31, 2015

Site Performance and Consolidated Results. The Bentonville Site achieved net revenues in 2016 of approximately $3.8 million compared to approximately $4.2 million in 2015. Additionally, the Tulsa site achieved net revenues of approximately $1.6 million in 2016 compared to approximately $1.9 million in 2015. The consolidated results reflect investments of capital, debt and resources made by the Company to launch and continue the ramp up of our Tulsa site. Over the past sixteen months, we worked aggressively to reduce operating expenses by $750,000 per year. To improve and expand the revenues at our two sites we have: (1) expanded service options in each clinic to increase same store growth; (2) restructured the management and supervisory team to achieve improved qualitative and quantative performance; (3) engaged a successful marketing firm to improve our digital presence, maximize social media and increase our events and public relations activities; (4) invested in IT infrastructure to stabilize and grow our operating and health data management; (5) implemented a dedicated business to business sales program; (6) established performance standards for medical providers; and (7) initiated discussions toward branded merger relationships with proven healthcare companies and service providers.

Summarized financial information is shown in the following table as of December 31, 2016 and 2015:

For the year ended December 31, 2016:

	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 3,774,771	$ 1,567,120	$ 14,440	$ 5,356,331
Operating expenses	3,178,185	1,832,219	684,962	5,695,366
Income (loss) from operations	596,586	(265,099)	(670,522)	(339,035)
Interest expense	-	-	(274,565)	(274,565)
Preferred returns	-	-	(60,925)	(60,925)
Provision for income taxes - current	-	-	(1,849)	(1,849)
Net income (loss)	$ 596,586	$ (265,099)	$(1,007,861)	$ (676,374)

For the year ended December 31, 2015:

	Bentonville, AR Site	Tulsa, OK Site	Unallocated Corporate	Consolidated
Net revenue	$ 4,181,878	$ 1,873,985	$ -	$ 6,055,863
Operating expenses	3,415,407	2,051,461	956,672	6,423,540
Income (loss) from operations	766,471	(177,476)	(956,672)	(367,677)
Interest expense	-	-	(231,115)	(231,115)
Preferred returns	-	-	(58,122)	(58,122)
Provision for income taxes - current	-	-	(20,314)	(20,314)
Net income (loss)	$ 766,471	$ (177,476)	$(1,266,223)	$ (677,228)

Net Revenues. We had net revenues for the year ended December 31, 2016 of $5,356,331 compared to $6,055,863 for the year ended December 31, 2015. The decrease of $699,532 is the result of a decrease in net revenues at both sites caused by decreased medical client visits in 2016. During the year ended December 31, 2016, combined medical client visits were 46,805 (33,303 in Bentonville and 13,502 in Tulsa) compared to combined medical client visits of 52,356 (36,585 in Bentonville and 15,771 in Tulsa) during the year ended December 31, 2015.

Operating Expenses. Operating expenses for the year ended December 31, 2016 were $5,695,366 compared to $6,423,540 for the year ended December 31, 2015. The decrease of $728,174 was primarily the result of cost cutting measures enacted in late 2015 and the beginning of 2016. During 2016, increased standards of performance required of our Tulsa medical providers led to resignations at the Tulsa site. During the second and third quarters of 2016, we replaced our Tulsa medical providers with staffing levels that met our service demands.

Operating Loss. Our operating loss for the year ended December 31, 2016 was $339,035 compared to an operating loss of $367,677 for the year ended December 31, 2015. The improvement of $28,642 was primarily the result of decreased operating expenses offset by decreased net revenues, as discussed above.

Interest Expense. Interest expense for the year ended December 31, 2016 was $274,565 compared to $231,115 for the year ended December 31, 2015. The increase of $43,450 is due to new borrowings from financing companies in 2016. Additionally, in 2016, we were not able to make all required loan payments to our bank.

Preferred Returns. We recorded $60,925 and $58,122 of preferred returns for the Class B membership units in WellQuest of Tulsa, LLC for the years ended December 31, 2016 and 2015, respectively.

Provision for Income Taxes – Current. During the year ended December 31, 2016, we recorded a current provision for income taxes of $1,849 compared to $20,314 in 2015. In 2014, we had Arkansas net operating loss carryforwards that expired causing more income taxes to be owed.

Net Loss. Our net loss for the year ended December 31, 2016 was $676,374 compared to a net loss of $677,228 for the year ended December 31, 2015. The slight improvement was caused by the factors discussed above.

Liquidity and Capital Resources

As of December 31, 2016, we had a working capital deficit of $3,906,944, resulting from current assets of $521,361 and current liabilities of $4,428,305. Since we did not meet the required debt service coverage ratio on two loans as discussed in Note 4 of the Notes to Consolidated Financial Statements, the outstanding balances of those loans have been included in current liabilities at December 31, 2016 and 2015. For the year ended December 31, 2016, cash provided by operating activities totaled $38,474. Cash used in investing activities totaled $56,656. Cash provided by financing activities totaled $15,945.

Our days in medical accounts receivables were 43 days and 28 days as of December 31, 2016 and December 31, 2015, respectively. All medical spa services and product sales are paid at the point of service by credit cards, debit cards, checks or cash. Accounts receivable related to medical spa services are not material and are not included in this analysis. Medical clinic services provided by AMWPA and PCP of Tulsa are generally submitted 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 to a bank lock box 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 contracts 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 reviews and 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 in medical accounts receivable as reported above:

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015
Gross Medical Clinic Revenue (1)	$ 1,870,408	$ 2,382,678
Expense recorded for Contractual adjustment/Bad Debt Allowance	(662,484)	(864,282)
Net Medical Clinic Revenue	$ 1,207,924	$ 1,518,396
# of Days in period (2)	92	92
Average Daily Charge (3) = (1) / (2)	$ 20,330	$ 25,899
Medical Clinic Accounts Receivable (4)	$ 869,775	$ 720,184
Days in medical accounts receivable = (4) / (3)	43	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.

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 our collection history. We recorded contractual adjustments and bad debt expense of approximately $2,815,000 and $3,302,000 for the years ended December 31, 2016 and 2015, respectively. We recorded contractual adjustments of approximately $2,436,000 and $2,870,000 for the years ended December 31, 2016 and 2015, respectively. We recorded bad debt expense of approximately $379,000 and $432,000 for the years ended December 31, 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 December 31, 2016			
	60 days or less	61 – 120 days	Greater than 120 days	Total
Medicare	$ 148,128	$ 23,592	$ 17,170	$ 188,890
Third party insurance (1)	262,338	37,442	55,693	355,473
Self pay (2)	65,626	45,196	214,590	325,412
Total accounts receivable	$ 476,092	$ 106,230	$ 287,453	$ 869,775

	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.

Our net revenue is comprised of net clinic revenue and revenue derived from the sales of spa 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 they are determined.

Aesthetics 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 the aesthetics department 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 (deferred revenue) until they are redeemed. Pre-paid purchases expire two years from the date of the customer's purchase.

Share-Based Payments

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 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.

Off-Balance Sheet Arrangements

None.

Part E – Issuance History

Item 17. List of securities offerings and shares issued for services in the past two years

The Company has not conducted a formal offering of securities in the past two fiscal years. In the notes to the enclosed financial statements (Notes 4), we disclose issuances of common stock resulting from subordinated debenture conversions.

Part F – Exhibits

Item 18. 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”.

Item 19. 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/filings.

Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 21. Issuer's Certifications

I, Steve Swift, President and Chief Executive Officer of WellQuest Medical and Wellness Corporation, certify that:

1. I have reviewed this annual disclosure statement of WellQuest Medical and Wellness Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of WellQuest Medical and Wellness Corporation, as of, and for, the periods presented in this disclosure statement.

Date: March 31, 2017

/s/ Steve Swift

Steve Swift
President and Chief Executive Officer

I, Josh Estes, Chief Financial Officer of WellQuest Medical and Wellness Corporation, certify that:

1. I have reviewed this annual disclosure statement of WellQuest Medical and Wellness Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of WellQuest Medical and Wellness Corporation, as of, and for, the periods presented in this disclosure statement.

Date: March 31, 2017

/s/ Josh Estes

Josh Estes
Chief Financial Officer