UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 001-39012

KURA SUSHI USA, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**26-3808434** (I.R.S. Employer Identification No.)
17932 Sky Park Circle, Suite H **Irvine, California** (Address of principal executive offices)	**92614** (Zip Code)

Registrant's telephone number, including area code: (657) 333-4100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.001 par value per share	**KRUS**	**Nasdaq Global Market**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

As of July 9, 2020, the registrant had 7,341,934 shares of Class A common stock, $0.001 par value per share, outstanding and 1,000,050 shares of Class B common stock, $0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Kura Sushi USA, Inc.
Condensed Balance Sheets
(amounts in thousands, except par value)
(Unaudited)

	May 31, 2020	August 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 17,030	$ 38,044
Accounts receivable	660	948
Inventories	407	539
Due from affiliate	5	226
Prepaid expenses and other current assets	2,929	1,744
Total current assets	21,031	41,501
Non-current assets:		
Property and equipment - net	40,937	31,917
Operating lease right-of-use assets	50,362	—
Deposits and other assets	1,501	1,865
Deferred tax assets	—	1,127
Total assets	$ 113,831	$ 76,410
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,152	$ 3,684
Accrued expenses and other current liabilities	881	1,635
Salaries and wages payable	1,008	1,348
Finance leases - current	1,007	994
Operating lease liabilities - current	4,656	—
Due to affiliate	123	83
Sales tax payable	14	547
Total current liabilities	9,841	8,291
Non-current liabilities:		
Finance leases - non-current	1,729	2,424
Operating lease liabilities - non-current	49,658	—
Deferred rent	—	2,188
Tenant allowances	—	1,089
Other liabilities	321	237
Total liabilities	61,549	14,229
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Class A common stock, $0.001 par value; 20,000 authorized, 7,342 and 7,335 issued and outstanding as of May 31, 2020 and August 31, 2019, respectively	7	7
Class B common stock, $0.001 par value; 10,000 authorized, 1,000 issued and outstanding as of May 31, 2020 and August 31, 2019	1	1
Additional paid-in capital	60,052	59,442
Retained earnings	(7,778)	2,731
Total stockholders' equity	52,282	62,181
Total liabilities and stockholders' equity	$ 113,831	$ 76,410

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

Kura Sushi USA, Inc.
Condensed Statements of Operations
(amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	2019	2020	2019
Sales	$ 2,812	$ 16,955	$ 39,640	$ 45,492
Restaurant operating costs:				
Food and beverage costs	1,069	5,509	12,868	14,880
Labor and related costs	3,551	5,279	15,336	14,286
Occupancy and related expenses	1,589	1,297	4,665	3,292
Depreciation and amortization expenses	743	517	2,118	1,457
Other costs	964	1,756	5,221	5,102
Total restaurant operating costs	7,916	14,358	40,208	39,017
General and administrative expenses	2,885	1,734	8,994	5,699
Depreciation and amortization expenses	39	29	97	80
Total operating expenses	10,840	16,121	49,299	44,796
Operating income (loss)	(8,028)	834	(9,659)	696
Other expense (income):				
Interest expense	36	45	103	126
Interest income	(65)	(1)	(432)	(11)
Income (loss) before income taxes	(7,999)	790	(9,330)	581
Income tax expense	1,153	71	1,179	41
Net income (loss)	$ (9,152)	$ 719	$ (10,509)	$ 540
Net income (loss) per Class A and Class B shares				
Basic	$ (1.10)	$ 0.14	$ (1.26)	$ 0.11
Diluted	$ (1.10)	$ 0.14	$ (1.26)	$ 0.10
Weighted average Class A and Class B shares				
Basic	8,341	5,000	8,337	5,000
Diluted	8,341	5,171	8,337	5,151

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

Kura Sushi USA, Inc.
Condensed Statements of Stockholders' Equity
(amounts in thousands)
(Unaudited)

	Common Stock						
	Class A		Class B		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balances as of August 31, 2019	7,335	$ 7	1,000	$ 1	$ 59,442	$ 2,731	$ 62,181
Stock-based compensation	—	—	—	—	121	—	121
Net loss	—	—	—	—	—	(1,224)	(1,224)
Balances as of November 30, 2019	7,335	$ 7	1,000	$ 1	$ 59,563	$ 1,507	$ 61,078
Stock-based compensation	—	—	—	—	211	—	211
Net loss	—	—	—	—	—	(133)	(133)
Exercise of stock options	3	—	—	—	15	—	15
Balances as of February 29, 2020	7,338	$ 7	1,000	$ 1	$ 59,789	$ 1,374	$ 61,171
Stock-based compensation	—	—	—	—	248	—	248
Net loss	—	—	—	—	—	(9,152)	(9,152)
Exercise of stock options	4	—	—	—	15	—	15
Balances as of May 31, 2020	7,342	$ 7	1,000	$ 1	$ 60,052	$ (7,778)	$ 52,282

	Common Stock						
	Class A		Class B		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balances as of August 31, 2018	4,000	$ 4	1,000	$ 1	$ 20,225	$ 1,275	$ 21,505
Stock-based compensation	—	—	—	—	160	—	160
Net loss	—	—	—	—	—	(391)	(391)
Balances as of November 30, 2018	4,000	$ 4	1,000	$ 1	$ 20,385	$ 884	$ 21,274
Stock-based compensation	—	—	—	—	161	—	161
Net income	—	—	—	—	—	212	212
Balances as of February 28, 2019	4,000	$ 4	1,000	$ 1	$ 20,546	$ 1,096	$ 21,647
Stock-based compensation	—	—	—	—	155	—	155
Net income	—	—	—	—	—	719	719
Balances as of May 31, 2019	4,000	$ 4	1,000	$ 1	$ 20,701	$ 1,815	$ 22,521

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

Kura Sushi USA, Inc.
Condensed Statements of Cash Flows
(amounts in thousands)
(Unaudited)

	Nine Months Ended May 31,	
	2020	**2019**
Cash flows from operating activities		
Net income (loss)	$ (10,509)	$ 540
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	2,215	1,537
Stock-based compensation	580	476
Loss on disposal of property and equipment	4	—
Deferred income taxes	1,114	(24)
Noncash lease expense	1,695	—
Inventory write-downs	50	—
Changes in operating assets and liabilities:		
Accounts receivable	836	(101)
Inventories	82	(84)
Due from affiliate	221	(5)
Prepaid expenses and other current assets	(1,227)	(358)
Deposits and other assets	(108)	(181)
Accounts payable	(2,995)	190
Accrued expenses and other current liabilities	(861)	37
Sales tax payable	(533)	117
Salary and wages payable	(340)	380
Due to affiliate	(4)	(46)
Deferred rent and tenant allowances	—	960
Operating lease liabilities	(915)	—
Net cash (used in) provided by operating activities	(10,695)	3,438
Cash flows from investing activities		
Payments for property and equipment	(9,348)	(7,688)
Payments for initial direct costs	(165)	—
Payments for purchases of liquor licenses	(58)	(20)
Net cash used in investing activities	(9,571)	(7,708)
Cash flows from financing activities		
Proceeds from borrowings of debt	—	3,921
Repayment on debt	—	(866)
Proceeds from PPP loan	5,983	—
Repayment of PPP loan	(5,983)	—
Repayment of principal on finance leases	(778)	(785)
Payments of costs related to initial public offering	—	(2,446)
Proceeds from stock option exercises	30	—
Net cash used in financing activities	(748)	(176)
Decrease in cash and cash equivalents	(21,014)	(4,446)
Cash and cash equivalents, beginning of year	38,044	5,711
Cash and cash equivalents, end of year	$ 17,030	$ 1,265
Noncash investing activities		
Amounts unpaid for purchases of property and equipment	$ 1,916	$ 434

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

Note 1. Organization and Basis of Presentation

Kura Sushi USA, Inc. is a technology-enabled Japanese restaurant concept that provides guests with a distinctive dining experience by serving authentic Japanese cuisine through an engaging revolving sushi service model, which the Company refers to as the “Kura Experience”. Kura Sushi encourages healthy lifestyles by serving freshly prepared Japanese cuisine using high-quality ingredients that are free from artificial seasonings, sweeteners, colorings, and preservatives. Kura Sushi aims to make quality Japanese cuisine accessible to our guests across the United States through affordable prices and an inviting atmosphere. “Kura Sushi USA,” “Kura Sushi,” “Kura,” and the “Company” refer to Kura Sushi USA, Inc. unless expressly indicated or the context otherwise requires.

Effects of COVID-19

In March 2020, the World Health Organization declared the novel strain of coronavirus COVID-19 a global pandemic. This contagious virus, which has continued to spread, has adversely affected workforces, customers, economies and financial markets globally. In response to this outbreak, many state and local authorities mandated the temporary closure of non-essential businesses and dine-in restaurant activity. COVID-19 and the government measures taken to control it have caused a significant disruption to the Company’s business operation. On March 18, 2020, the Company announced the temporary closure of all of its 25 restaurants located across five states and has since furloughed certain of its employees. As of May 31, 2020, the Company had reopened seven restaurants and as of the filing date of this Quarterly Report, has reopened all 25 restaurants, with 14 of them in California currently only providing takeout due to government restrictions on indoor dining. The reopened restaurants that allow indoor dining have been operating at reduced capacities of 25% or 50% depending on local requirements.

To support the Company’s employees during this challenging time, the Company has maintained payroll for restaurant managers and key kitchen staff. The Company maintained payroll for all employees through April 5, 2020 and all kitchen employees through May 9, 2020. The Company also continued to pay the employees’ portion of health insurance for all furloughed employees.

In response to the ongoing COVID-19 pandemic, the Company has prioritized taking steps to protect the health and safety of its employees and customers. Currently, the restaurants are not utilizing the revolving conveyor belt and all food is ordered from the tableside touchscreen. The food is delivered either by the express belt directly from the kitchen to the customers’ tables or by the restaurant employees. The Company has increased cleaning and sanitizing protocols of its restaurants and has implemented additional training and operational manuals for its restaurant employees, as well as increased handwashing procedures. The Company also provides each restaurant employee with face masks and gloves, and requires each employee to pass a health screening process, which includes a temperature check, before the start of each shift.

The temporary restaurant closure and the reduced capacities at the reopened restaurants have caused a substantial decline in the Company’s sales in the most recent fiscal quarter. The future sales levels of the Company’s restaurants and the Company’s ability to implement its growth strategy remain highly uncertain, as the full impact and duration of the COVID-19 outbreak continues to evolve as of the date of this Quarterly Report. The Company expects the current decreased restaurant sales levels and ongoing length and severity of the economic downturn caused by the pandemic will continue to have a material adverse impact on the future business, financial condition, liquidity and financial results of the Company.

Recent Events Concerning the Company’s Financial Position

On April 10, 2020, the Company and Kura Sushi, Inc. (“Kura Japan”), a majority stockholder, entered into a Revolving Credit Agreement establishing a $20 million revolving credit line with a termination date of March 31, 2024, to provide the Company with additional liquidity as may be necessary. See “Note 4. Related Party Transactions” and “Note 6. Debt”.

On April 14, 2020, the Company entered into a Promissory Note with Bank of the West, which provided for a loan in the amount of $6.0 million (the “PPP Loan”) pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) signed into law on March 27, 2020. On April 29, 2020, the Company returned the proceeds received from the PPP Loan.

Under the provisions of the CARES Act, the Company is eligible for a refundable employee retention credit subject to certain criteria. In connection with the CARES Act, the Company adopted a policy to recognize the employee retention credit when earned and to offset the credit against the related expenditure. Accordingly, the Company recorded a $1.6 million employee retention credit during the three months ended May 31, 2020, which is included in Labor and related costs in the statements of operations.

The Company has received rent concessions from its landlords for certain of its restaurants in the form of rent abatements and rent deferrals which were immaterial for the three months ended May 31, 2020. The Company continues to have discussions with its landlords regarding potential future rent concessions.

Due to the impact of COVID-19, the Company assessed its long-lived assets for potential impairment, which resulted in no impairment charges recorded as of May 31, 2020. The Company also assessed the realizability of its deferred tax assets and recorded a valuation allowance of $1.1 million during the three months ended May 31, 2020. See “Note 9. Income Taxes”.

Basis of Presentation

The accompanying unaudited condensed financial statements (the “Condensed Financial Statements”) have been prepared by the Company in accordance with generally accepted accounting principles in the United States (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. As such, these Condensed Financial Statements should be read in conjunction with the Company’s audited financial statements and accompanying notes included in its Annual Report on Form 10-K for the fiscal year ended August 31, 2019.

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 2, Basis of Presentation and Summary of Accounting Policies, of the Notes to Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2019. In the opinion of management, all adjustments necessary to fairly state the Condensed Financial Statements have been made. All such adjustments are of a normal, recurring nature. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending August 31, 2020 or for any other future annual or interim period.

Fiscal Year

The Company’s fiscal year begins on September 1 and ends on August 31 and references made to “fiscal year 2020,” “fiscal year 2019” and “fiscal year 2018” refer to the Company’s fiscal years ended August 31, 2020, August 31, 2019 and August 31, 2018, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented.

Significant items subject to such estimates include asset retirement obligations, stock-based compensation, the useful lives of assets, the assessment of the recoverability of long-lived assets, and income taxes. The Company evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, and adjusts those estimates and assumptions when facts and circumstances dictate. Actual results could differ materially from those estimates and assumptions.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income is the same as net income for all periods presented. Therefore, a separate statement of comprehensive income is not included in the accompanying financial statements.

Recently Adopted Accounting Pronouncements

In April 2020, the staff of the Financial Accounting Standards Board (FASB) issued a question-and-answer document that stated that entities may elect to account for lease concessions related to the effects of the COVID-19 pandemic as though the rights and obligations for those concessions existed as of the commencement of the contract rather than as a lease modification. Lessees may make the election for any lessor-provided lease concession related to the impact of the COVID-19 pandemic as long as the concession does not result in a substantial increase in the rights of the lessor or in the obligations of the lessee. The Company has made such election. The Company has received immaterial rent concessions and has not entered into any lease modifications as of May 31, 2020. As such, this election did not have a material impact on the balance sheets, the statements of operations, statements of stockholders’ equity or statements of cash flows.

On September 1, 2019, the Company adopted ASU 2016-02, “Leases (Topic 842)” (“Topic 842” or “ASC 842”), along with related clarifications and improvements. This pronouncement requires lessees to recognize a liability for lease obligations, which represents the discounted obligation to make future lease payments, and a corresponding right-of-use asset on the balance sheet. The guidance requires disclosure of key information about leasing arrangements that is intended to give financial statement users the ability to assess the amount, timing, and potential uncertainty of cash flows related to leases. The Company elected the optional transition method to apply the standard as of the effective date and therefore, prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under previous lease guidance, ASC Topic 840: Leases (Topic 840). The adoption of Topic 842 had a material impact on the balance sheets and an immaterial impact on the statements of operations, statements of equity and statements of cash flows.

The practical expedients were as follows:

Practical expedients	The Company has not reassessed whether any expired or existing contracts are, or contain, leases. The Company has not reassessed the lease classification for any expired or existing leases. The Company has not reassessed initial direct costs for any expired or existing leases.
Hindsight Practical Expedient	The Company has elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets.

The impact on the balance sheet is as follows:

	August 31, 2019	Adjustments Due to the Adoption of Topic 842	September 1, 2019
		(amounts in thousands)	
Assets			
Current assets:			
Cash and cash equivalents	$ 38,044	$ —	$ 38,044
Accounts receivable	948	—	948
Inventories	539	—	539
Due from affiliate	226	—	226
Prepaid expenses and other current assets(1)	1,744	(54)	1,690
Total current assets	41,501	(54)	41,447
Non-current assets:			
Property and equipment - net	31,917		31,917
Operating lease right-of-use assets	—	37,332	37,332
Deposits and other assets(1)	1,865	(530)	1,335
Deferred tax assets	1,127	—	1,127
Total assets	$ 76,410	$ 36,748	$ 113,158
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 3,684	$ —	$ 3,684
Accrued expenses and other current liabilities(1)	1,635	(97)	1,538
Salaries and wages payable	1,348	—	1,348
Finance leases - current	994	—	994
Operating lease liabilities - current	—	3,618	3,618
Due to affiliate	83	—	83
Sales tax payable	547	—	547
Total current liabilities	8,291	3,521	11,812
Non-current liabilities:			
Finance leases - non-current	2,424	—	2,424
Operating lease liabilities - non-current	—	36,504	36,504
Deferred rent(1)	2,188	(2,188)	—
Tenant allowances(1)	1,089	(1,089)	—
Other liabilities	237	—	237
Total liabilities	14,229	36,748	50,977
Stockholders' equity:			
Common stock - Class A	7	—	7
Common stock - Class B	1	—	1
Additional paid-in capital	59,442	—	59,442
Retained earnings	2,731	—	2,731
Total stockholders' equity	62,181	—	62,181
Total liabilities and stockholders' equity	$ 76,410	$ 36,748	$ 113,158

(1) Adjustment to reclassify prepaid rent, initial direct costs, deferred rent and tenant allowance to right-of-use assets for operating leases upon the adoption of Topic 842.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which is intended to simplify various aspects related to accounting for income taxes. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. ASU 2019-12 is effective for the Company beginning in fiscal year 2022. The Company is currently in the process of evaluating the effects of this pronouncement on its financial statements.

Note 2. Balance Sheet Components

Accounts Receivable

	May 31, 2020	August 31, 2019
	(amounts in thousands)	
Tenant allowance receivable	$ 548	$ 215
Credit card receivable	112	733
Total accounts receivable	$ 660	$ 948

Property and Equipment, net

	May 31, 2020	August 31, 2019
	(amounts in thousands)	
Leasehold improvements	$ 27,952	$ 24,926
Lease assets	6,133	6,037
Furniture and fixtures	7,450	5,600
Computer equipment	687	599
Vehicles	88	75
Software	634	428
Construction in progress	7,083	1,127
Property and equipment, gross	50,027	38,792
Less: accumulated depreciation and amortization	(9,090)	(6,875)
Total property and equipment - net	$ 40,937	$ 31,917

Depreciation and amortization expense for property and equipment was approximately $0.8 million and $0.5 million for the three months ended May 31, 2020 and May 31, 2019, respectively, and was $2.2 million and $1.5 million for the nine months ended May 31, 2020 and May 31, 2019, respectively.

Deposits and Other Assets

	May 31, 2020	August 31, 2019
	(amounts in thousands)	
Liquor license	$ 696	$ 638
Initial direct costs	—	530
Security deposits	805	697
Total deposits and other assets	$ 1,501	$ 1,865

Prepaid Expenses and Other Current Assets

	May 31, 2020		August 31, 2019	
	(amounts in thousands)			
Prepaid expenses	$	976	$	1,293
Other current assets	$	373	$	451
Employee retention credit		1,580		-
Total prepaid expenses and other current assets	$	2,929	$	1,744

Note 3. Leases

At inception of a contract, the Company assesses whether the contract is a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease classification, measurement, and recognition are determined at lease commencement, which is the date the underlying asset is available for use by the Company. The accounting classification of a lease is based on whether the arrangement is effectively a financed purchase of the underlying asset (finance lease) or not (operating lease). The Company has operating and finance leases for its corporate office, restaurant locations, office equipment, kitchen equipment and automobiles. Our leases have remaining lease terms of less than 1 year to 20 years, some of which include options to extend the leases. For leases with renewal periods at the Company's option, the Company determines the expected lease period based on whether the renewal of any options is reasonably assured at the inception of the lease.

Operating leases are accounted for on the balance sheet with the right-of-use ("ROU") assets and lease liabilities recognized in "Operating lease right-of-use assets", "Operating lease liabilities - current" and "Operating lease liabilities - noncurrent" on the balance sheet, respectively. Finance leases are accounted for on the balance sheet with ROU assets and lease liabilities recognized in "Property and equipment - net", "Finance lease - current" and "Finance lease - noncurrent" on the balance sheet, respectively.

Lease assets and liabilities are recognized at the lease commencement date. All lease liabilities are measured at the present value of the lease payments not yet paid. To determine the present value of lease payments not yet paid, the Company estimates incremental borrowing rates corresponding to the maturities of the leases. As the Company has no outstanding debt, it estimates this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment. ROU assets, for both operating and finance leases, are initially measured based on the lease liability, adjusted for initial direct costs, prepaid or deferred rent, and lease incentives. The operating lease ROU assets are subsequently measured at the carrying amount of the lease liability adjusted for initial direct costs, prepaid or accrued lease payments, and lease incentives. Depreciation of the finance lease ROU assets are subsequently calculated using the straight-line method over the shorter of the estimated useful lives or the expected lease terms and recorded in "Depreciation and amortization expense" on the statement of operations.

Related to the adoption of Topic 842, the Company's policy elections were as follows:

Separation of lease and non-lease components	The Company has elected a policy to account for lease and non-lease components as a single component for our entire population of operating lease assets.
Short-term policy	The Company has elected the short-term lease recognition exemption for all applicable classes of underlying assets. Short-term disclosures include only those leases with a term greater than one month and 12 months or less, and expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise, are not recorded on the balance sheet.

The Company recognizes expense for these leases on a straight-line basis over the lease term. In addition to the fixed minimum payments required under the lease arrangements, certain leases require variable lease payments, such as common area maintenance, insurance and real estate taxes, which are recognized when the associated activity occurs. Additionally, contingent rental payments based on sales thresholds for certain of our restaurants are accrued based on estimated sales.

Lease related costs recognized in the statements of operations for the three and nine months ended May 31, 2020 are as follows:

		Three Months Ended May 31, 2020	Nine Months Ended May 31, 2020
		(amounts in thousands)	
Finance lease cost	**Classification**		
Amortization of right-of-use assets	Depreciation and amortization expense	$ 141	$ 419
Interest on lease liabilities	Interest expense	30	95
Total finance lease cost		$ 171	$ 514

		Three Months Ended May 31, 2020	Nine Months Ended May 31, 2020
		(amounts in thousands)	
Operating lease cost	**Classification**		
Operating lease cost	Occupancy and related expenses, other costs and general and administrative expenses	$ 1,244	$ 3,688
Variable lease cost	Occupancy and related expenses, and general and administrative expenses	223	923
Total operating lease cost		$ 1,467	$ 4,611

Supplemental balance sheet information related to leases was as follows:

Operating Leases

	May 31, 2020
	(amounts in thousands)
Right-of-use assets	$ 50,362
Lease liabilities - current	4,656
Lease liabilities - non-current	49,658
Total lease liabilities	$ 54,314

Finance Lease Assets, net

	May 31, 2020
	(amounts in thousands)
Property and equipment	$ 6,133
Accumulated depreciation	(2,044)
Total property and equipment - net	$ 4,089

Finance Leases Liabilities

	May 31, 2020
	(amounts in thousands)
Finance lease - current	$ 1,007
Finance lease - non-current	1,729
Total finance lease liabilities	$ 2,736

	May 31, 2020
Weighted Average Remaining Lease Term (Years)	
Operating leases	15.1
Finance leases	2.6
Weighted Average Discount Rate	
Operating leases	5.8%
Finance leases	4.5%

Supplemental disclosures of cash flow information related to leases were as follows:

	Nine Months Ended May 31, 2020
	(amounts in thousands)
Operating cash flows paid for operating lease liabilities	$ 2,644
Operating right-of-use assets obtained in exchange for new operating lease liabilities	$ 15,074

As of May 31, 2020, the Company has additional operating leases related to restaurants the Company has not yet taken possession of $18.0 million. These operating leases will commence between fiscal years 2020 and 2021 with lease terms of 20 years. Subsequent to May 31, 2020, the Company entered into two operating leases for an office space and a restaurant space commencing in fiscal 2021 with initial lease terms of five years and 10 years, respectively, and total minimum lease payments for both properties of $4.1 million. In addition, the Company has options to extend the lease terms by five years and 10 years, respectively.

Maturities of lease liabilities were as follows as of May 31, 2020:

	Operating Leases	Finance Leases
	(amounts in thousands)	
Remainder of 2020	$ 1,189	$ 272
2021	4,763	1,107
2022	4,806	1,004
2023	4,804	483
2024	4,954	17
Thereafter	64,908	2
Total lease payments	85,424	2,885
Less: imputed interest	(31,110)	(149)
Present value of lease liabilities	$ 54,314	$ 2,736

As previously disclosed in our fiscal year 2019 Annual Report on Form 10-K and under the previous lease accounting, maturities of lease liabilities were as follows as of August 31, 2019:

	Operating Lease Payments	Capital Lease Payments
	(amounts in thousands)	
2020	$ 4,256	$ 1,113
2021	4,435	1,075
2022	4,477	972
2023	4,465	476
2024	4,607	13
Thereafter	58,714	—
Total	$ 80,954	$ 3,649
Less interest		(231)
Total capital lease obligation		3,418
Less current portion of capital lease obligation		(994)
Non-current portion of capital lease obligation		$ 2,424

Note 4. Related Party Transactions

Kura Sushi, Inc. (“Kura Japan”) is a majority stakeholder of the Company, and is incorporated and headquartered in Japan. In August 2019 the Company entered into a Shared Services Agreement with Kura Japan, pursuant to which Kura Japan provides the Company with certain strategic, operational and other support services, including assigning certain employees to work for the Company as expatriates to provide support to the Company’s operations, sending its employees to the Company on a short-term basis to provide support for the opening of new restaurants or renovation of existing restaurants, and providing the Company with certain supplies, parts and equipment for use in the Company’s restaurants. In addition, the Company has agreed to continue to provide Kura Japan with certain translational support services and market research analyses. In exchange for such services, supplies, parts and equipment, the parties will pay fees to each other as set forth under the Shared Services Agreement. A right of setoff is not required, however, from time to time, either party will net settle transactions as needed. Purchases of administrative supplies, expatriate salaries and travel and other administrative expenses from Kura Japan are included in general and administrative expenses in the accompanying statements of operations. Purchases of equipment from Kura Japan are included in property and equipment in the accompanying balance sheets.

In August 2019, the Company entered into an Amended and Restated Exclusive License Agreement (the “License Agreement”) with Kura Japan. Pursuant to the License Agreement, the Company pays Kura Japan a royalty fee of 0.5% of the Company’s net sales in exchange for an exclusive, royalty-bearing license for use of certain of Kura Japan’s intellectual property rights, including, but not limited to, Kura Japan’s trademarks “Kura Sushi” and “Kura Revolving Sushi Bar,” and patents for a food management system and the Mr. Fresh protective dome, among other intellectual property rights necessary to continue operation of the Company’s restaurants. Royalty payments to Kura Japan are included in other costs at the restaurant-level in the accompanying statements of operations.

On April 10, 2020, the Company and Kura Japan entered into a Revolving Credit Agreement establishing a $20 million revolving credit line with a termination date of March 31, 2024, to provide the Company with additional liquidity. The maturity date for amounts borrowed under the Revolving Credit Agreement is twelve months after the disbursement date, unless renewed or extended by mutual agreement of both parties for an additional twelve months.

Balances with Kura Japan as of May 31, 2020 and August 31, 2019 are as follows:

	May 31, 2020	August 31, 2019
	(amounts in thousands)	
Due from affiliate	$ 5	$ 226
Due to affiliate	123	83

Transactions with Kura Japan for the three months ended May 31, 2020 and May 31, 2019 and for the nine months ended May 31, 2020 and May 31, 2019 are as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	2019	2020	2019
	(amounts in thousands)			
Related party transactions:				
Purchases of administrative supplies	$ 8	$ 1	$ 31	$ 10
Expatriate salaries expense	34	32	106	84
Royalty payments	14	84	198	227
Travel and other administrative expenses	23	30	73	67
Purchases of equipment	200	104	833	549
Total related party transactions	$ 279	$ 251	$ 1,241	$ 937

Note 5. Stock-based Compensation

The following table summarizes the stock option activity under the Company's 2018 Incentive Compensation Plan (the "Stock Incentive Plan") for the period from August 31, 2019 through May 31, 2020:

Activity under the Stock Incentive Plan is as follows:

	Options Outstanding	
	Number of shares underlying outstanding options	Weighted Average Exercise Price Per Share
Outstanding—August 31, 2019	405,302	$ 4.46
Options granted	157,539	21.85
Options exercised	(6,814)	4.26
Options canceled/forfeited	(6,641)	11.35
Outstanding—May 31, 2020	549,386	$ 9.37

Stock-based compensation related to the stock options issued under the Stock Incentive Plan was $0.2 million for both the three months ended May 31, 2020 and May 31, 2019 and was $0.6 million and $0.5 million for the nine months ended May 31, 2020 and May 31, 2019, respectively. Stock-based compensation for restaurant-level employees is included in other costs and stock-based compensation for corporate-level employees is included in general and administrative expenses in the statements of operations.

The total stock-based compensation expense recognized under the Stock Incentive Plan in the statements of operations is as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	2019	2020	2019
	(amounts in thousands)			
Restaurant-level stock-based compensation included in other costs	$ 23	$ 17	$ 59	$ 62
Corporate-level stock-based compensation included in general and administrative expenses	225	138	521	414
Total stock-based compensation	$ 248	$ 155	$ 580	$ 476

Note 6. Debt

On January 31, 2019, the Company secured a non-revolving line of credit in the amount of up to $5 million (the "Credit Facility") that matures on July 31, 2020. All borrowings under the Credit Facility will bear interest at the Company's option at either (a) the prime lending rate of the lender less one-half of one percent (0.5%), or (b) one-month LIBOR plus one and one-half percent (1.5%). At any time the Company has an aggregate principal balance of at least $300,000 outstanding, that had not previously been converted to a term loan, the aggregate principal balance outstanding shall be converted to be payable on a term loan basis. The Company also has the option to convert the principal balance outstanding to a term loan by providing written notice to the lender at least 30 days prior to the maturity date. Each term loan will have a maturity of not more than 36 months. The obligations of the Company under the Credit Facility are collateralized by substantially all assets of the Company. The Credit Facility also requires the Company to comply with certain financial covenants regarding the Company's liquidity, fixed charge coverage ratio and tangible net worth ratio. Changes in the Company's financial condition that cause a breach of any of these financial covenants could result in a default and an acceleration of the obligations under the Credit Facility, which could have an adverse effect on the Company's liquidity, capital resources and results of operations. The Company was in compliance with all financial-related covenants under the Credit Facility as of May 31, 2020, except for the fixed charge coverage ratio covenant. On June 29, 2020, the Company was issued a waiver for this covenant as of May 31, 2020.

As of May 31, 2020, the Company had no outstanding borrowings and had $1.1 million available under the Credit Facility.

On April 10, 2020, the Company and Kura Japan entered into a Revolving Credit Agreement establishing a $20 million revolving credit line with a termination date of March 31, 2024, to provide the Company with additional liquidity. The maturity date for amounts borrowed under the Revolving Credit Agreement is twelve months after the disbursement date, unless renewed or extended by mutual agreement of both parties for an additional twelve months. There are no financial covenants under the Revolving Credit Agreement with which the Company must comply. As of May 31, 2020, the Company had not drawn on the available revolving credit line. For further discussion, please see "Note 1. Organization and Basis of Presentation" and "Note 4. Related Party Transactions."

On April 14, 2020, the Company entered into a Promissory Note with Bank of the West, which provided for a loan in the amount of $6.0 million (the "PPP Loan") pursuant to the Paycheck Protection Program under the CARES Act. On April 29, 2020, the Company returned the proceeds received from the PPP Loan.

Note 7. Income (Loss) Per Share

The net income (loss) per share attributable to common stockholders is allocated based on the contractual participation rights of the Class A common stock and Class B common stock as if the earnings for the period has been distributed. As the liquidation and dividend rights for Class A and Class B common stock are identical, the net income (loss) attributable to common stockholders is allocated on a proportionate basis.

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share:

	Three Months Ended May 31,				Nine Months Ended May 31,			
	2020		2019		2020		2019	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
	(amounts in thousands, except per share data)							
Net income (loss) attributable to common stockholders - basic	$ (8,055)	$ (1,097)	$ 575	$ 144	$ (9,248)	$ (1,261)	$ 432	$ 108
Weighted average common shares outstanding - basic	7,341	1,000	4,000	1,000	7,337	1,000	4,000	1,000
Net income (loss) per share attributable to common stockholders - basic	$ (1.10)	$ (1.10)	$ 0.14	$ 0.14	$ (1.26)	$ (1.26)	$ 0.11	$ 0.11
Net income (loss) attributable to common stockholders - diluted	$ (8,055)	$ (1,097)	$ 580	$ 139	$ (9,248)	$ (1,261)	$ 435	$ 105
Weighted average shares outstanding - basic	7,341	1,000	4,000	1,000	7,337	1,000	4,000	1,000
Options to purchase common stock	—	—	171	—	—	—	151	—
Weighted average shares outstanding - diluted	7,341	1,000	4,171	1,000	7,337	1,000	4,151	1,000
Net income (loss) per share attributable to common stockholders - diluted	$ (1.10)	$ (1.10)	$ 0.14	$ 0.14	$ (1.26)	$ (1.26)	$ 0.10	$ 0.10

The Company computes basic income (loss) per common share using net income (loss) and the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is computed using net income (loss) and the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include dilutive outstanding employee stock options.

For the three months ended May 31, 2020, there were approximately 21 thousand potentially dilutive shares that were excluded from the calculation of diluted loss per share because their inclusion would have been anti-dilutive. For the three months ended May 31, 2019, there were no potentially dilutive shares that were excluded from the calculation of diluted income per share because their inclusion would have been anti-dilutive. For the nine months ended May 31, 2020, there were approximately 137 thousand potentially dilutive shares, respectively, that were excluded from the calculation of diluted loss per share because their inclusion would have been anti-dilutive. For the nine months ended May 31, 2019, there were no potentially dilutive shares that were excluded from the calculation of diluted income per share because their inclusion would have been anti-dilutive.

Note 8. Commitments and Contingencies

Contingencies. On May 31, 2019, a putative class action complaint was filed by a former employee Brandy Gomes in Los Angeles County Superior Court, alleging violations of California wage and hour laws. The Company was served with this complaint on June 28, 2019. The Company disputes any allegations of wrongdoing and intends to defend itself vigorously in this matter. The Company is currently unable to estimate the range of possible losses associated with this proceeding.

The Company is involved from time to time in various legal proceedings that arise in the ordinary course of our business, including but not limited to commercial disputes, environmental matters, employee related claims, intellectual property disputes and litigation in connection with transactions including acquisitions and divestitures. In the opinion of management, the Company does not believe that such litigation, claims, and administrative proceedings, including the putative class action matter referenced above, will have a material adverse effect on our business, financial position, results of operations or cash flows. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims, including the putative class action referenced above, could materially and adversely affect our business, financial condition, results of operations or cash flows. The Company records a liability when a loss is considered probable, and the amount can be reasonably estimated.

Note 9. Income Taxes

The Company recorded an income tax expense of $1.2 million and $71 thousand for the three months ended May 31, 2020 and May 31, 2019, respectively. The Company recorded an income tax expense of $1.2 million and $41 thousand for the nine months ended May 31, 2020 and May 31, 2019, respectively. The Company's effective tax rate for the nine months ended May 31, 2020 substantially differed from the federal statutory tax rate of 21 percent primarily due to a one-time, non-cash charge to record a valuation allowance for the Company's deferred tax assets as discussed below.

During the three months ended May 31, 2020, the adverse effects of the COVID-19 pandemic have caused the Company to reassess the need for valuation allowances against its deferred tax assets. The Company performed an assessment of positive and negative evidence regarding the realization of its deferred tax assets. The weight given to positive and negative evidence is commensurate with the extent to which it can be objectively verified. Based on the weight of available evidence, it is more likely than not that the Company's deferred tax assets will not be realized and therefore, the Company recorded a valuation allowance on its deferred tax assets. The total amount of the valuation allowances recorded as a discrete item during the three months ended May 31, 2020 was approximately $1.1 million.

On March 27, 2020, the CARES Act was signed into law and includes certain business tax provisions. However, the Company does not expect the CARES Act to have a material impact on the Company's effective tax rate or income tax expense for the year.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited financial statements and the related notes and with the audited financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019 (the "Annual Report").

In addition to historical information, the following discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions set forth in the "Special Note Regarding Forward-Looking Statements" and "Risk Factors" sections of the Annual Report. You should review those sections in our Annual Report for a discussion of important factors, including the continuing development of our business and other factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

"Kura Sushi USA," "Kura Sushi," "Kura," "we," "us," "our," "our company" and the "Company" refer to Kura Sushi USA, Inc. unless expressly indicated or the context otherwise requires.

Overview

Kura Sushi USA, Inc. is a technology-enabled Japanese restaurant concept that provides guests with a distinctive dining experience by serving authentic Japanese cuisine through an engaging revolving sushi service model, which we refer to as the "Kura Experience". We encourage healthy lifestyles by serving freshly prepared Japanese cuisine using high-quality ingredients that are free from artificial seasonings, sweeteners, colorings, and preservatives. We aim to make quality Japanese cuisine accessible to our guests across the United States through affordable prices and an inviting atmosphere.

Business Trends; Effects of COVID-19 on Our Business

The negative effects of the COVID-19 on our business have been significant. In March 2020, the World Health Organization declared the novel strain of coronavirus COVID-19 a global pandemic. This contagious virus, which has continued to spread, has adversely affected workforces, customers, economies and financial markets globally. In response to this outbreak, many state and local authorities mandated the temporary closure of non-essential businesses and dine-in restaurant activity. COVID-19 and the government measures taken to control it have caused a significant disruption to our business operation. On March 18, 2020, we announced the temporary closure of all of our 25 restaurants located across five states and has since furloughed certain of our employees. As of May 31, 2020, we had reopened seven restaurants and as of the filing date of this Quarterly Report, have reopened all 25 restaurants, with 14 of them in California currently only providing takeout due to government restrictions on indoor dining. The reopened restaurants that allow indoor dining have been operating at reduced capacities of 25% or 50% depending on local requirements.

To support our employees during this challenging time, we have maintained payroll for store managers and key kitchen staff. We maintained payroll for all employees through April 5, 2020 and all kitchen employees through May 9, 2020. We also continued to pay our employee's portion of health insurance for all furloughed employees.

In response to the ongoing COVID-19 pandemic, we have prioritized taking steps to protect the health and safety of our employees and customers. Currently, the restaurants are not utilizing the revolving conveyor belt and all food is ordered from the tableside touchscreen. The food is delivered either by the express belt directly from the kitchen to the customers' tables or by the restaurant employees. We have also increased cleaning and sanitizing protocols of our restaurants and have implemented additional training and operational manuals for our restaurant employees, as well as increased handwashing procedures. We also provide each restaurant employee with face masks and gloves, and require each employee to pass a health screening process, which includes a temperature check, before the start of each shift.

The temporary restaurant closure and the reduced capacities at the reopened restaurants have caused a substantial decline in our sales in the most recent fiscal quarter. The future sales levels of our restaurants and our ability to implement our growth strategy remain highly uncertain, as the full impact and duration of the COVID-19 outbreak continues to evolve as of the date of this Quarterly Report. We expect the current decreased restaurant sales levels and ongoing length and severity of the economic downturn caused by the pandemic will continue to have a material adverse impact on our future business, financial condition, liquidity and financial results.

Recent Events Concerning Our Financial Position

On April 10, 2020, we and Kura Sushi, Inc. ("Kura Japan"), a majority stockholder, entered into a Revolving Credit Agreement establishing a $20 million revolving credit line with a termination date of March 31, 2024, to provide us with additional liquidity as may be necessary. See "Note 4. Related Party Transactions" and "Note 6. Debt".

On April 14, 2020, we entered into a Promissory Note with Bank of the West, which provided for a loan in the amount of $6.0 million (the “PPP Loan”) pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) signed into law on March 27, 2020. On April 29, 2020, we returned the proceeds received from the PPP Loan.

Under the provisions of the CARES Act, we are eligible for a refundable employee retention credit subject to certain criteria. In connection with the CARES Act, the Company adopted a policy to recognize the employee retention credit when earned and to offset the credit against the related expenditure. Accordingly, we recorded a $1.6 million employee retention credit during the three months ended May 31, 2020, which is included in Labor and related costs in the statements of operations.

We have received rent concessions from our landlords for certain of our restaurants in the form of rent abatements and rent deferrals which were immaterial for the three months ended May 31, 2020. We continue to have discussions with our landlords regarding potential future rent concessions.

Due to the impact of COVID-19, we assessed our long-lived assets for potential impairment which resulted in no impairment charges recorded as of May 31, 2020. We also assessed the realizability of our deferred tax assets and recorded a valuation allowance of $1.1 million during the three months ended May 31, 2020. See “Note 9. Income Taxes”.

Key Financial Definitions

Sales. Sales represent sales of food and beverages in restaurants. Restaurant sales in a given period are directly impacted by the number of restaurants we operate and comparable restaurant sales growth.

Food and beverage costs. Food and beverage costs are variable in nature, change with sales volume and are influenced by menu mix and subject to increases or decreases based on fluctuations in commodity costs. Other important factors causing fluctuations in food and beverage costs include seasonality and restaurant-level management of food waste. Food and beverage costs are a substantial expense and are expected to grow proportionally as our sales grows.

Labor and related expenses. Labor and related expenses include all restaurant-level management and hourly labor costs, including wages, employee benefits and payroll taxes. Similar to the food and beverage costs that we incur, labor and related expenses are expected to grow proportionally as our sales grows. Factors that influence fluctuations in our labor and related expenses include minimum wage and payroll tax legislation, the frequency and severity of workers’ compensation claims, healthcare costs and the performance of our restaurants.

Occupancy and related expenses. Occupancy and related expenses include rent for all restaurant locations and related taxes.

Depreciation and amortization expenses. Depreciation and amortization expenses are periodic non-cash charges that consist of depreciation of fixed assets, including equipment and capitalized leasehold improvements. Depreciation is determined using the straight-line method over the assets’ estimated useful lives, ranging from three to 20 years.

Other costs. Other costs include utilities, repairs and maintenance, credit card fees, royalty payments to Kura Japan, stock-based compensation expenses for restaurant-level employees and other restaurant-level expenses.

General and administrative expenses. General and administrative expenses include expenses associated with corporate and regional supervision functions that support the operations of existing restaurants and development of new restaurants, including compensation and benefits, travel expenses, stock-based compensation expenses for corporate-level employees, legal and professional fees, marketing costs, information systems, corporate office rent and other related corporate costs. General and administrative expenses are expected to grow as our sales grows, including incremental legal, accounting, insurance and other expenses incurred as a public company.

Interest expense. Interest expense includes cash and non-cash charges related to our line of credit and finance lease obligations.

Interest income. Interest income includes income earned on our investments.

Income tax expense (benefit). Provision for income taxes represents federal, state and local current and deferred income tax expense.

Results of Operations

The following tables present selected comparative results of operations for the three months ended May 31, 2020 and May 31, 2019 and for the nine months ended May 31, 2020 and May 31, 2019. Our financial results for these periods are not necessarily indicative of the financial results that we will achieve in future periods. Certain totals for the table below may not sum to 100% due to rounding.

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019	Increase / (Decrease) 2020 vs 2019	
	(dollar amounts in thousands)			
Sales	$ 2,812	$ 16,955	$ (14,143)	(83.4) %
Restaurant operating costs				
Food and beverage costs	1,069	5,509	(4,440)	(80.6)
Labor and related costs	3,551	5,279	(1,728)	(32.7)
Occupancy and related expenses	1,589	1,297	292	22.5
Depreciation and amortization expenses	743	517	226	43.7
Other costs	964	1,756	(792)	(45.1)
Total restaurant operating costs	7,916	14,358	(6,442)	(44.9)
General and administrative expenses	2,885	1,734	1,151	66.4
Depreciation and amortization expenses	39	29	10	34.5
Total operating expenses	10,840	16,121	(5,281)	(32.8)
Operating income (loss)	(8,028)	834	(8,862)	(1,062.6)
Other expense (income):				
Interest expense	36	45	(9)	(20.0)
Interest income	(65)	(1)	(64)	6,400.0
Income (loss) before income taxes	(7,999)	790	(8,789)	(1,112.5)
Income tax expense	1,153	71	1,082	1,523.9
Net income (loss)	$ (9,152)	$ 719	$ (9,871)	(1,372.9) %

	Nine Months Ended May 31, 2020	Nine Months Ended May 31, 2019	Increase / (Decrease) 2020 vs 2019	
	(dollar amounts in thousands)			
Sales	$ 39,640	$ 45,492	$ (5,852)	(12.9) %
Restaurant operating costs				
Food and beverage costs	12,868	14,880	(2,012)	(13.5)
Labor and related costs	15,336	14,286	1,050	7.3
Occupancy and related expenses	4,665	3,292	1,373	41.7
Depreciation and amortization expenses	2,118	1,457	661	45.4
Other costs	5,221	5,102	119	2.3
Total restaurant operating costs	40,208	39,017	1,191	3.1
General and administrative expenses	8,994	5,699	3,295	57.8
Depreciation and amortization expenses	97	80	17	21.3
Total operating expenses	49,299	44,796	4,503	10.1
Operating income (loss)	(9,659)	696	(10,355)	(1,487.8)
Other expense (income):				
Interest expense	103	126	(23)	(18.3)
Interest income	(432)	(11)	(421)	3,827.3
Income (loss) before income taxes	(9,330)	581	(9,911)	(1,705.9)
Income tax expense	1,179	41	1,138	2,775.6
Net income (loss)	$ (10,509)	$ 540	$ (11,049)	(2,046.1) %

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	2019	2020	2019
	(as a percentage of sales)			
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Restaurant operating costs				
Food and beverage costs	38.0	32.5	32.5	32.7
Labor and related costs	126.3	31.1	38.7	31.4
Occupancy and related expenses	56.5	7.6	11.8	7.2
Depreciation and amortization expenses	26.4	3.0	5.3	3.2
Other costs	34.3	10.4	13.2	11.2
Total restaurant operating costs	281.5	84.7	101.4	85.8
General and administrative expenses	102.6	10.2	22.7	12.5
Depreciation and amortization expenses	1.4	0.2	0.2	0.2
Total operating expenses	385.5	95.1	124.4	98.5
Operating income (loss)	(285.5)	4.9	(24.4)	1.5
Other expense (income):				—
Interest expense	1.3	0.3	0.3	0.3
Interest income	(2.3)	—	(1.1)	(0.0)
Income (loss) before income taxes	(284.5)	4.7	(23.5)	1.3
Income tax expense	41.0	0.4	3.0	0.1
Net income (loss)	(325.5) %	4.2 %	(26.5) %	1.2 %

Three Months Ended May 31, 2020 Compared to Three Months Ended May 31, 2019

Sales. Sales were $2.8 million for the three months ended May 31, 2020 compared to $17.0 million for the three months ended May 31, 2019, representing a decrease of approximately $14.2 million or 83.4%. Due to COVID-19, on March 18, 2020 we temporarily closed all of our 25 restaurants. As of May 31, 2020, we had reopened seven restaurants at reduced capacity levels. The decrease in sales was primarily driven by restaurant closures during the three months ended May 31, 2020, and was slightly offset by sales from the opening of four new restaurants subsequent to May 31, 2019.

Food and beverage costs. Food and beverage costs were $1.1 million for the three months ended May 31, 2020 compared to $5.5 million for the three months ended May 31, 2019, representing a decrease of approximately $4.4 million or 80.6%. The decrease in food and beverage costs was primarily driven by the temporary restaurant closures during the three months ended May 31, 2020, and was slightly offset by the costs associated with the sales from the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, food and beverage costs increased to 38.0% in the three months ended May 31, 2020, compared to 32.5% in the three months ended May 31, 2019. The increase in food and beverage costs as a percentage of sales was primarily driven by inventory spoilage incurred during the three months ended May 31, 2020.

Labor and related costs. Labor and related costs were $3.6 million for the three months ended May 31, 2020 compared to $5.3 million for the three months ended May 31, 2019, representing a decrease of approximately $1.7 million, or 32.7%. Labor and related costs decreased due to a $1.6 million employee retention credit as a result of the CARES Act, as well as the furlough of certain employees as a result of the temporary restaurant closures during the three months ended May 31, 2020, partially offset by additional labor costs incurred from the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, labor and related costs increased to 126.3% in the three months ended May 31, 2020, compared to 31.1% in the three months ended May 31, 2019. The increase in labor and related costs as a percentage of sales was primarily due to retaining certain restaurant employees during the temporary restaurant closures.

Occupancy and related expenses. Occupancy and related expenses were $1.6 million for the three months ended May 31, 2020 compared to $1.3 million for the three months ended May 31, 2019, representing an increase of approximately $0.3 million, or 22.5%. The increase was primarily a result of additional lease expense incurred with respect to the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, occupancy and other operating expenses increased to 56.5% in the three months ended May 31, 2020, compared to 7.6% in the three months ended May 31, 2019. The increase in occupancy and related expenses as a percentage of sales was primarily driven by the decrease in sales due to the temporary restaurant closures during the three months ended May 31, 2020, as well as higher occupancy rates in our newer restaurants and an increase in pre-opening lease expense.

Depreciation and amortization expenses. Depreciation and amortization expenses incurred as part of restaurant operating costs were $0.7 million for the three months ended May 31, 2020 compared to $0.5 million for the three months ended May 31, 2019, representing an increase of approximately $0.2 million, or 43.7%. The increase was primarily due to depreciation of property and equipment related to the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, depreciation and amortization expenses at the restaurant-level increased to 26.4% in the three months ended May 31, 2020 as compared to 3.0% in the three months ended May 31, 2019. The increase is primarily due to the decrease in sales due to the temporary restaurant closures during the three months ended May 31, 2020, as well as higher build-out costs of our newer restaurants. Depreciation and amortization expenses incurred at the corporate-level were immaterial for the three months ended May 31, 2020 and May 31, 2019, and as a percentage of sales were 1.4% and 0.2%, respectively.

Other costs. Other costs were $1.0 million for the three months ended May 31, 2020 compared to $1.8 million for the three months ended May 31, 2019, representing a decrease of approximately $0.8 million, or 45.1%. The decrease was primarily due to lower operating costs due to the temporary restaurant closures during the three months ended May 31, 2020, such as credit card fees, restaurant supplies, promotional expenses and royalties. As a percentage of sales, other costs increased to 34.3% in the three months ended May 31, 2020 from 10.4% in the three months ended May 31, 2019 primarily due to costs that are not directly variable with the decrease in sales from the temporary restaurant closures, such as utilities and business insurance.

General and administrative expenses. General and administrative expenses were $2.9 million for the three months ended May 31, 2020 compared to $1.7 million for the three months ended May 31, 2019, representing an increase of approximately $1.2 million, or 66.4%. This increase in general and administrative expenses was primarily due to $0.7 million of insurance, accounting, and legal costs associated with operating as a public company costs and $0.4 million in employee compensation-related expenses associated with increased wages and additional headcount to support our growth in operations. As a percentage of sales, general and administrative expenses increased to 102.6% in the three months ended May 31, 2020 from 10.2% in three months ended May 31, 2019, primarily due to the increase in the expenses mentioned above as well as the decrease in sales due to the temporary restaurant closures during the three months ended May 31, 2020.

Interest expense. Interest expense was insignificant in both the three months ended May 31, 2020 and May 31, 2019, and as a percentage of sales was 1.3% and 0.3%, respectively.

Interest income. Interest income was $0.1 million for the three months ended May 31, 2020 compared to $1 thousand for the three months ended May 31, 2019, due to a higher cash and cash equivalents balance.

Income tax expense. Income tax expense was $1.2 million for the three months ended May 31, 2020 compared to $71 thousand for the three months ended May 31, 2019 primarily due to a $1.1 million one-time, non-cash charge to record a valuation allowance on our deferred tax assets. For further discussion of our income taxes, see “Note 9. Income Taxes”.

Nine Months Ended May 31, 2020 Compared to Nine Months Ended May 31, 2019

Sales. Sales were $39.6 million for the nine months ended May 31, 2020 compared to $45.5 million for the nine months ended May 31, 2019, representing a decrease of approximately $5.9 million, or 12.9%. The decrease in sales was primarily driven by the temporary restaurant closures during the three months ended May 31, 2020, and was partially offset by sales from the opening of four new restaurants subsequent to May 31, 2019.

Food and beverage costs. Food and beverage costs were $12.9 million for the nine months ended May 31, 2020 compared to $14.9 million for the nine months ended May 31, 2019, representing a decrease of approximately $2.0 million, or 13.5%. The decrease in food and beverage costs was primarily driven by the temporary restaurant closures during the three months ended May 31, 2020, and was partially offset by the costs associated with the sales from the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, food and beverage costs remained relatively consistent at 32.5% in the nine months ended May 31, 2020, compared to 32.7% in the nine months ended May 31, 2019.

Labor and related costs. Labor and related costs were $15.3 million for the nine months ended May 31, 2020 compared to $14.3 million for the nine months ended May 31, 2019, representing an increase of approximately $1.0 million, or 7.3%. The increase in labor and related costs was driven by additional labor costs incurred from the opening of four new restaurants subsequent to May 31, 2019, partially offset by a $1.6 million employee retention credit as a result of the CARES Act, as well as the furlough of certain employees as a result of the temporary restaurant closures during the three months ended May 31, 2020. As a percentage of sales, labor and related costs increased to 38.7% in the nine months ended May 31, 2020, compared to 31.4% in the nine months ended May 31, 2019, which was primarily due to retaining certain restaurant employees during the temporary restaurant closures.

Occupancy and related expenses. Occupancy and related expenses were $4.7 million for the nine months ended May 31, 2020 compared to $3.3 million for the nine months ended May 31, 2019, representing an increase of approximately $1.4 million, or 41.7%. The increase was primarily a result of additional lease expense incurred from the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, occupancy and other operating expenses increased to 11.8% in the nine months ended May 31, 2020, compared to 7.2% in the nine months ended May 31, 2019. The increase in occupancy and related expenses as a percentage of sales was primarily driven by the decrease in sales due to the temporary restaurant closures during the three months ended May 31, 2020, as well as higher occupancy rates in our newer restaurants and the increase in pre-opening lease expense.

Depreciation and amortization expenses. Depreciation and amortization expenses incurred as part of restaurant operating costs were $2.1 million for the nine months ended May 31, 2020 compared to $1.5 million for the nine months ended May 31, 2019, representing an increase of approximately $0.6 million, or 45.4%. The increase was primarily due to depreciation of property and equipment related to the opening of four new restaurants subsequent to May 31, 2019. As a percentage of sales, depreciation and amortization expenses at the restaurant-level increased to 5.3% in the nine months ended May 31, 2020 as compared to 3.2% in the nine months ended May 31, 2019. The increase is primarily driven by the decrease in sales due to the temporary restaurant closures during the three months ended May 31, 2020, as well as higher build-out costs of our newer restaurants. Depreciation and amortization expenses incurred at the corporate-level were immaterial for the nine months ended May 31, 2020 and May 31, 2019, and as a percentage of sales remained relatively consistent at 0.2% and 0.2%, respectively.

Other costs. Other costs were $5.2 million for the nine months ended May 31, 2020 compared to $5.1 million for the nine months ended May 31, 2019, representing an increase in approximately $0.1 million, or 2.3%. The increase was primarily due to costs related to operating four new restaurants subsequent to May 31, 2019, offset by lower operating costs due to the temporary restaurant closures during the three months ended May 31, 2020, such as credit card fees, restaurant supplies, promotional expenses and royalties. As a percentage of sales, other costs increased to 13.2% in the nine months ended May 31, 2020 compared to 11.2% in the nine months ended May 31, 2019, primarily due to costs that are not directly variable with the decrease in sales from the temporary restaurant closures, such as utilities and business insurance.

General and administrative expenses. General and administrative expenses were $9.0 million for the nine months ended May 31, 2020 compared to $5.7 million for the nine months ended May 31, 2019, representing an increase of approximately $3.3 million, or 57.8%. This increase in general and administrative expenses was primarily due to $1.7 million of insurance, accounting, and legal costs associated with operating as a public company, $0.4 million of other legal costs, and $0.9 million in employee compensation-related expenses associated with increased wages and additional headcount to support our growth in operations. As a percentage of sales, general and administrative expenses increased to 22.7% in the nine months ended May 31, 2020 from 12.5% in the nine months ended May 31, 2019, primarily due to the increase in the expenses mentioned above as well as the decrease in sales due to the temporary restaurant closures during the three months ended May 31, 2020.

Interest expense. Interest expense was insignificant in both the nine months ended May 31, 2020 and May 31, 2019, and as a percentage of sales remained consistent at 0.3%.

Interest income. Interest income was $0.4 million for the nine months ended May 31, 2020 compared to $11 thousand for the nine months ended May 31, 2019, due to a higher cash and cash equivalents balance.

Income tax expense (benefit). Income tax expense was $1.2 million for the nine months ended May 31, 2020 compared to $41 thousand for the nine months ended May 31, 2019 primarily due to a $1.1 million one-time, non-cash charge to record a valuation allowance for the Company's deferred tax assets. For further discussion of our income taxes, see "Note 9. Income Taxes".

Key Performance Indicators

In assessing the performance of our business, we consider a variety of financial and performance measures. The key measures for determining how our business is performing include sales, EBITDA, Adjusted EBITDA, Restaurant-level Operating Profit, Restaurant-level Operating Profit margin, comparable restaurant sales growth, and number of restaurant openings.

Sales

Sales represents sales of food and beverages in restaurants, as shown on our statements of operations. Several factors affect our restaurant sales in any given period including the number of restaurants in operation, guest traffic and average check.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest, income taxes and depreciation and amortization. Adjusted EBITDA is defined as EBITDA plus stock-based compensation expense, non-cash lease expense and asset disposals, closure costs and restaurant impairments, as well as certain items that are not indicative of core operating results. EBITDA and Adjusted EBITDA are non-GAAP measures which are intended as supplemental measures of our performance and are neither required by, nor presented in accordance with, GAAP. We believe that EBITDA and Adjusted EBITDA provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results. However, these measures may not provide a complete understanding of the operating results of the Company as a whole and such measures should be reviewed in conjunction with our GAAP financial results.

We believe that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with those of comparable companies, which may present similar non-GAAP financial measures to investors. However, you should be aware when evaluating EBITDA and Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. In addition, our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted EBITDA in the same fashion.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA on a supplemental basis. You should review the reconciliation of net income to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table reconciles net income to EBITDA and Adjusted EBITDA for the three months ended May 31, 2020 and May 31, 2019 and the nine months ended May 31, 2020 and May 31, 2019:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	**2019**(a)	**2020**	**2019**(a)
	(amounts in thousands)			
Net income (loss)	$ (9,152)	$ 719	$ (10,509)	$ 540
Interest (income) expense, net	(29)	44	(329)	115
Taxes	1,153	71	1,179	41
Depreciation and amortization	782	546	2,215	1,537
EBITDA	(7,246)	1,380	(7,444)	2,233
Stock-based compensation expense(b)	248	155	580	476
Non-cash lease expense(c)	140	109	399	325
Employee retention credit(d)	(1,580)	—	(1,580)	—
Adjusted EBITDA	(8,438)	1,644	(8,045)	3,034
Adjusted EBITDA margin	(300.1)%	9.7%	(20.3)%	6.7%

(a) Effective May 31, 2020, we no longer exclude pre-opening lease expense and pre-opening costs from our computation of Adjusted EBITDA. Adjusted EBITDA for the three and nine months ended May 31, 2019 has been restated to the current period computation methodology.

(b) Stock-based compensation expense includes non-cash stock-based compensation, which is comprised of restaurant-level stock-based compensation included in other costs in the statements of operations and of corporate-level stock-based compensation included in general and administrative expenses in the statements of operations. For further details of stock-based compensation, see "Note 5. Stock-based Compensation" to the financial statements included in this Quarterly Report.

(c) Non-cash lease expense includes lease expense from the opening date of our restaurants that did not require cash outlay in the respective periods.

(d) Refundable credit against certain employment taxes recognized under the provisions of the CARES Act.

Restaurant-level Operating Profit and Restaurant-level Operating Profit Margin

Restaurant-level Operating Profit is defined as operating income plus depreciation and amortization; stock-based compensation expense; pre-opening lease expense, pre-opening costs and general and administrative expenses, which are considered normal, recurring cash operating expenses and are essential to supporting the development and operations of our restaurants; non-cash lease expense, asset disposals, closure costs and restaurant impairments; less corporate-level stock-based compensation expense and pre-opening costs recognized within general and administrative expenses. Restaurant-level Operating Profit margin is defined as

Restaurant-level Operating Profit divided by sales. Restaurant-level Operating Profit and Restaurant-level Operating Profit margin are intended as supplemental measures of our performance and are neither required by, nor presented in accordance with, GAAP. We believe that Restaurant-level Operating Profit and Restaurant-level Operating Profit margin provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results. We expect Restaurant-level Operating Profit to increase in proportion to the number of new restaurants we open and our comparable restaurant sales growth.

We present Restaurant-level Operating Profit because it excludes the impact of general and administrative expenses, which are not incurred at the restaurant-level. We also use Restaurant-level Operating Profit to measure operating performance and returns from opening new restaurants. Restaurant-level Operating Profit margin allows us to evaluate the level of Restaurant-level Operating Profit generated from sales.

However, you should be aware that Restaurant-level Operating Profit and Restaurant-level Operating Profit margin are financial measures, which are not indicative of overall results for the Company, and Restaurant-level Operating Profit and Restaurant-level Operating Profit margin do not accrue directly to the benefit of stockholders because of corporate-level expenses excluded from such measures.

In addition, when evaluating Restaurant-level Operating Profit and Restaurant-level Operating Profit margin, you should be aware that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our computation of Restaurant-level Operating Profit and Restaurant-level Operating Profit margin may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Restaurant-level Operating Profit and Restaurant-level Operating Profit margin in the same fashion. Restaurant-level Operating Profit and Restaurant-level Operating Profit margin have limitations as analytical tools, and you should not consider those measures in isolation or as a substitute for analysis of our results as reported under GAAP.

The following table reconciles operating income to Restaurant-level Operating Profit and Restaurant-level Operating Profit margin for the three months ended May 31, 2020 and May 31, 2019 and for the nine months ended May 31, 2020 and May 31, 2019:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	**2019**	**2020**	**2019**
	(amounts in thousands)			
Operating income (loss)	$ (8,028)	$ 834	$ (9,659)	$ 696
Depreciation and amortization	782	546	2,215	1,537
Stock-based compensation expense(a)	248	155	580	476
Pre-opening lease expense(b)	290	156	719	419
Pre-opening costs(c)	177	71	581	152
Non-cash lease expense(d)	140	109	399	325
Employee retention credit(e)	(1,580)	—	(1,580)	—
General and administrative expenses	2,885	1,734	8,994	5,699
Corporate-level stock-based compensation and pre-opening costs included in General and administrative expenses	(259)	(138)	(652)	(414)
Restaurant-level operating profit (loss)	(5,345)	3,467	1,597	8,890
Operating profit margin	(285.5)%	4.9%	(24.4)%	1.5%
Restaurant-level operating profit margin	(190.1)%	20.4%	4.0%	19.5%

(a) Stock-based compensation expense includes non-cash stock-based compensation, which is comprised of restaurant-level stock-based compensation included in other costs in the statements of operations and of corporate-level stock-based compensation included in general and administrative expenses in the statements of operations. For further details of stock-based compensation, see “Note 5. Stock-based Compensation” to the financial statements included in this Quarterly Report.

(b) Pre-opening lease expense includes lease expenses incurred between date of possession and opening date of our restaurants.

(c) Pre-opening costs consist of labor costs and travel expenses for new employees and trainers during the training period, recruitment fees, legal fees and other related pre-opening costs.

(d) Non-cash lease expense includes lease expense from the opening date of our restaurants that did not require cash outlay in the respective periods.

(e) Refundable credit against certain employment taxes recognized under the provisions of the CARES Act.

Comparable Restaurant Sales Growth

Comparable restaurant sales growth refers to the change in year-over-year sales for the comparable restaurant base. We include restaurants in the comparable restaurant base that have been in operation for at least 18 months prior to the start of the accounting period presented due to new restaurants experiencing a period of higher sales upon opening, including those temporarily closed for renovations during the year. For restaurants that were temporarily closed for renovations during the year, we make fractional adjustments to sales such that sales are annualized in the associated period. We did not make any adjustments for the temporary restaurant closures due to COVID-19 during three and nine months ended May 31, 2020.

Measuring our comparable restaurant sales growth allows us to evaluate the performance of our existing restaurant base. Various factors impact comparable restaurant sales, including:

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- pricing;
- guest traffic;
- per-guest spend and average check;
- marketing and promotional efforts;
- local competition; and
- opening of new restaurants in the vicinity of existing locations.

Since opening new restaurants will be a significant component of our sales growth, comparable restaurant sales growth is only one measure of how we evaluate our performance. The following table shows the comparable restaurant sales growth for the three and nine months ended May 31, 2020 and May 31, 2019:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	**2019**	**2020**	**2019**
Comparable restaurant sales growth (%)	(85.4)%	7.6%	(24.5)%	5.8%
Comparable restaurant base	17	13	14	10

Number of Restaurant Openings

The number of restaurant openings reflects the number of restaurants opened during a particular reporting period. Before we open new restaurants, we incur pre-opening costs. New restaurants may not be profitable, and their sales performance may not follow historical patterns. The number and timing of restaurant openings has had, and is expected to continue to have, an impact on our results of operations. The following table shows the growth in our restaurant base for the three and nine months ended May 31, 2020 and May 31, 2019:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2020	**2019**	**2020**	**2019**
Restaurant activity:				
Beginning of period	25	20	23	17
Openings	—	1	2	4
Closings	—	—	—	—
End of period	25	21	25	21

Liquidity and Capital Resources

Our primary uses of cash are for operational expenditures and capital investments, including new restaurants, costs incurred for restaurant remodels and restaurant fixtures. Historically, our main sources of liquidity have been cash flows from operations and annual capital contributions from Kura Japan. Since the completion of our initial public offering, we did not expect to receive any additional capital contributions from Kura Japan. However, the impact of the COVID-19 pandemic is highly uncertain and management expects that the current restaurant sales levels and ongoing length and severity of the economic downturn will have a material adverse impact on our business, financial condition, liquidity and financial results. For further discussion, see above under "—Business Trends; Effects of COVID-19 on our Business".

On April 10, 2020, we and Kura Japan entered into a Revolving Credit Agreement establishing a $20 million revolving credit line with a termination date of March 31, 2024, to provide us with additional liquidity as may be necessary as a result of the recent closures and economic downturn. The maturity date for amounts borrowed under the Revolving Credit Agreement is twelve months after the disbursement date, unless renewed or extended by mutual agreement of both parties for an additional twelve months.

We also have $1.1 million available under our non-revolving line of credit (the “Credit Facility”) that matures on July 31, 2020, which Credit Facility is further described in “Note 6. Debt” to the financial statements included in this Quarterly Report.

The significant components of our working capital are liquid assets such as cash, cash equivalents and receivables, reduced by accounts payable and accrued expenses. Our working capital position benefits from the fact that we generally collect cash from sales to guests the same day or, in the case of credit or debit card transactions, within several days of the related sale, while we typically have longer payment terms with our vendors.

We believe that cash provided by operating activities, cash on hand and availability under our Revolving Credit Agreement provided by Kura Japan, will be sufficient to fund our lease obligations, capital expenditures and working capital needs for at least the next 12 months.

Summary of Cash Flows

Our primary sources of liquidity and cash flows are operating cash flows and cash on hand. We use this to fund investing expenditures for new restaurant openings, reinvest in our existing restaurants, and increase our working capital. Our working capital position benefits from the fact that we generally collect cash from sales to guests the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 30 days to pay our vendors.

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended May 31,	
	2020	**2019**
Statement of Cash Flow Data:	(amounts in thousands)	
Net cash (used in) provided by operating activities	$ (10,695)	$ 3,438
Net cash used in investing activities	(9,571)	(7,708)
Net cash used in financing activities	(748)	(176)

Cash Flows (Used in) Provided by Operating Activities

Net cash used in operating activities during the nine months ended May 31, 2020 was $10.7 million, which results from net loss of $10.5 million, non-cash charges of $2.2 million for depreciation and amortization, $0.6 million for stock-based compensation, $1.7 million in noncash lease expense, $1.1 million for deferred income taxes, and net cash outflows of approximately $5.8 million from changes in operating assets and liabilities. The net cash outflows from changes in operating assets and liabilities were primarily the result of decreases of $3.0 million for accounts payable, $0.9 million for operating lease liabilities, $0.9 million for accrued expenses and other current liabilities, $0.5 million for sales tax payable, and $0.3 million for salary and wages payable, as well as increases of $0.8 million for accounts receivable, $1.2 million for prepaid expenses and other current assets, and $0.2 million for amounts due from affiliate. The decrease in accounts payable and accrued expenses and other current liabilities was primarily driven by timing of payment for certain liabilities. The increase in accounts receivable was due to the timing of tenant allowance receivables as well as lower credit card receivable balances at May 31, 2020 due to the temporary restaurant closures.

Net cash provided by operating activities during the nine months ended May 31, 2019 was $3.4 million, which resulted from net income of $0.5 million, non-cash charges of $1.5 million for depreciation and amortization, $0.5 million for stock-based compensation, and net cash inflows of $0.9 million from changes in operating assets and liabilities. The net cash inflows from changes in operating assets and liabilities were primarily the result of increases of $1.0 million for deferred rent and tenant allowances and $0.4 million for salaries and wages payable, partially offset by a decrease of $0.4 million for prepaid expense. The increase in the above-mentioned items was primarily due to the opening of four restaurants during the nine months ended May 31, 2019.

Cash Flows Used in Investing Activities

Net cash used in investing activities during the nine months ended May 31, 2020 was $9.6 million, primarily due to purchases of property and equipment. The purchases of property and equipment in the nine months ended May 31, 2020 are primarily related to capital expenditures for current and future restaurant openings, renovations, maintaining our existing restaurants and other projects.

Net cash used in investing activities during the nine months ended May 31, 2019 was $7.7 million, primarily due to purchases of property and equipment. The increase in purchases of property and equipment in the nine months ended May 31, 2019 is primarily related to capital expenditures for current and future restaurant openings, renovations, maintaining our existing restaurants and other projects.

Cash Flows Used in Financing Activities

Net cash used in financing activities during the nine months ended May 31, 2020 was $0.7 million primarily due to repayment of principal on financing leases of equipment.

Net cash used in financing activities during the nine months ended May 31, 2019 was $0.2 million primarily due to payments of $2.4 million related to our initial public offering, which was completed in August 2019, repayments $0.8 million principal balances on financing leases of equipment as well as repayment of debt of $0.9 million during nine months ended May 31, 2019. This was partially offset by proceeds from the issuance of long-term debt of $3.9 million.

Contractual Obligations

As of May 31, 2020, we had $4.9 million in contractual obligations relating to purchase commitments for goods related to restaurant operations and commitments for construction of new restaurants. All purchase commitments are expected to be paid during the current fiscal year. For operating and finance lease obligations, see “Note 3. Leases” to the financial statements included in this Quarterly Report.

Off-Balance Sheet Arrangements

As of May 31, 2020, we did not have any material off-balance sheet arrangements.

Recent Accounting Pronouncements

For a description of recently issued and adopted accounting pronouncements, including the respective dates of adoption and expected effects on our results of operations and financial condition, see “Part I, Item 1, Note 1. Organization and Basis of Presentation” of the Notes to Condensed Financial Statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

Our discussion and analysis of operating results and financial condition are based upon our financial statements. The preparation of our financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales, expenses and related disclosures of contingent assets and liabilities. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis.

Our critical accounting policies are those that materially affect our financial statements and involve subjective or complex judgments by management. Although these estimates are based on management’s best knowledge of current events and actions that may impact us in the future, actual results may be materially different from the estimates.

See “Part I, Item 1, Note 1. Organization and Basis of Presentation” and “Note 3. Leases” to the financial statements included in this Quarterly Report on Form 10-Q for a discussion of a recently adopted accounting pronouncement that affects our accounting for lease obligations. There have been no other material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended August 30, 2019. Please refer to “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” of our Annual Report on Form 10-K for the fiscal year ended August 30, 2019 for a discussion of our critical accounting policies and estimates.

Jumpstart Our Business Startups Act of 2012

We qualify as an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Subject to certain conditions set forth in the JOBS Act, we are also eligible for and intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may take advantage of these exemptions until we are no longer an emerging growth company. We will continue to be an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which the market value of our Class A common stock that is held by non-affiliates exceeds $700 million as of June 30 of that fiscal year, (ii) the last day of the fiscal year in which we had total annual gross revenue of $1 billion or more during such fiscal year (as indexed for inflation), (iii) the date on which we have issued more than $1 billion in non-convertible debt in the prior three-year period or (iv) the last day of the fiscal year following the fifth anniversary of the date of the completion of our initial public offering.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to interest rate risk through fluctuations in interest rates on our debt obligations. Our Credit Facility carries interest at a floating rate. We seek to manage exposure to adverse interest rate changes through our normal operating and financing activities. As of May 31, 2020, we had no outstanding borrowings under the Credit Facility.

Commodity and Food Price Risks

Our profitability is dependent on, among other things, our ability to anticipate and react to changes in the costs of key operating resources, including food and beverage and other commodities. We have been able to partially offset cost increases resulting from a number of factors, including market conditions, shortages or interruptions in supply due to weather or other conditions beyond our control, governmental regulations and inflation, by increasing our menu prices, as well as making other operational adjustments that increase productivity. However, substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be offset by menu price increases or operational adjustments.

Inflation Risk

The primary inflationary factors affecting our operations are food and beverage costs, labor costs, and energy costs. Our restaurant operations are subject to federal and state minimum wage and other laws governing such matters as working conditions, overtime and tip credits. Significant numbers of our restaurant personnel are paid at rates related to the federal and/or state minimum wage and, accordingly, increases in the minimum wage increase our labor costs. To the extent permitted by competition and the economy, we have mitigated increased costs by increasing menu prices and may continue to do so if deemed necessary in future years. Substantial increases in costs and expenses could impact our operating results to the extent such increases cannot be passed through to our guests. Historically, inflation has not had a material effect on our results of operations. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse impact on our business, financial condition or results of operations.

While we have been able to partially offset inflation and other changes in the costs of core operating resources by gradually increasing menu prices, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. From time to time, competitive conditions could limit our menu pricing flexibility. In addition, macroeconomic conditions could make additional menu price increases imprudent. There can be no assurance that future cost increases can be offset by increased menu prices or that increased menu prices will be fully absorbed by our guests without any resulting change to their visit frequencies or purchasing patterns. In addition, there can be no assurance that we will generate sales growth in an amount sufficient to offset inflationary or other cost pressures.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently involved in various claims, investigations and legal actions that arise in the ordinary course of our business, including claims and investigations resulting from employment-related matters. On May 31, 2019, a putative class action complaint was filed by a former employee Brandy Gomes in Los Angeles County Superior Court, alleging violations of California wage and hour laws. We were served with this complaint on June 28, 2019. We dispute any allegations of wrongdoing and intend to defend ourselves vigorously in this matter. We are currently unable to estimate the range of possible losses associated with this proceeding.

In the opinion of management, none of these matters, including the putative class action matter referenced above, has had a material effect on us, and as of the date of this report, we are not party to any material pending legal proceedings and are not aware of any claims that could have a material adverse effect on our business, financial condition, results of operations or cash flows. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims, including the putative class action referenced above, could materially and adversely affect our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

A description of the risk factors associated with our business is contained in the “Risk Factors” section of our Annual Report on Form 10-K for our fiscal year ended August 31, 2019. There have been no material changes to our Risk Factors as previously reported, except for the addition of the Risk Factors below.

The recent and ongoing COVID-19 pandemic has adversely affected, and will continue to adversely affect, our operations and measures that limit our ability to operate will continue to adversely affect our business, financial condition, liquidity and financial results.

Our business has been significantly adversely affected by the COVID-19 outbreak in the United States. In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious virus, which has continued to spread, has adversely affected workforces, customers, economies and financial markets globally as well as the markets in which we operate. It has also disrupted the normal operations of many businesses, including ours. In response to this outbreak, many state and local authorities in the markets in which we operate have either mandated the temporary closure or imposed capacity limits to non-essential businesses and dine-in restaurant activity. On March 18, 2020, the Company announced the temporary closure of all of its 25 restaurants located across five states and has since furloughed certain of its employees. As of the filing date of this Quarterly Report, the Company had reopened all 25 restaurants, with 14 of them in California currently only providing takeout due to government restrictions on indoor dining. The reopened restaurants that allow indoor dining have been operated at reduced capacities of 25% or 50% depending on local requirements.

Approximately 90% of our restaurants are located in California and Texas. As a result of our concentration in these markets, we may be disproportionately affected by any increased severity of the pandemic and heightened regulatory measures in either of these states compared to other chain restaurants with a national footprint. For example, a recent surge of COVID-19 cases in California has caused all of our 14 reopened restaurants in California to suspend dine-in service and provide only takeout due to re-imposed government restrictions on indoor dining.

The temporary restaurant closure and the reduced capacities at the reopened restaurants have caused a substantial decline in the Company’s sales in the most recent fiscal quarter and we expect will continue to result in substantial declines in sales for so long as the pandemic continues to impact the communities in which we operate. The future sales levels of our restaurants and our ability to implement our growth strategy is highly uncertain, and it will continue to adversely impact our future sales growth as the full impact and duration of the COVID-19 outbreak continues to evolve. Management expects the current restaurant sales levels and ongoing length and severity of the economic downturn caused by the pandemic will continue to have a material adverse impact on our future business, financial condition, liquidity and financial results.

A prolonged occurrence of COVID-19 may result in restaurant re-closures, prohibition on indoor dining, as well as further restrictions, including possible travel restrictions and additional restrictions on the restaurant industry. Our efforts to mitigate the effect of COVID-19 on our business or the economic downturn that is expected may be unsuccessful, and we may not be able to commence operations in a timeframe that is sufficient or otherwise take actions in response to developments with regard to the pandemic. To date these events have resulted in a sustained, significant drop in restaurant traffic and are likely to continue to occur during this pandemic, which will continue to have a material adverse effect on our business, financial condition, liquidity and financial results.

Social distancing measures and changes in consumer behavior as a result of COVID-19 may materially and adversely affect our business.

Social distancing measures due to the COVID-19 pandemic may impact our current service and business models, as customers choose to avoid public gathering places, which actions could result in a loss of sales and profit. Additionally, consumer behavior may fundamentally change as a result of COVID-19 in both the near and long term and such change may pose significant challenges to our current service and business models. The regulatory authorities and customers' altered requirements for the sanitary and safety conditions for restaurants have caused the Company to suspend one of its hallmark service features, the revolving conveyor belt. We currently do not offer delivery services. Traffic in restaurants, including ours, may be materially and adversely affected with more consumers relying on off-premises orders. Consumer spending may also be negatively impacted by general macroeconomic conditions and consumer confidence, including the impacts of any recession, resulting from the COVID-19 pandemic. All of this could materially and adversely impact sales at our restaurants and our growth prospects. We have made adjustments to our restaurant operations due to the COVID-19 pandemic and may have to re-design our service and business models to accommodate consumers' changed behavior pattern. Any such attempted effort could result in capital expenditures, business disruption, lower margin sales and may not be successful in growing our profitability.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
10.1	Revolving Credit Agreement, dated April 10, 2020, between Kura Sushi USA, Inc. and Kura Sushi, Inc. (incorporated by reference to our current report on Form 8-K filed with the SEC on April 14, 2020 as Exhibit 10.1)
10.2*	Promissory Note, dated April 14, 2020, between Kura Sushi USA, Inc. and Bank of the West
31.1*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

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

KURA SUSHI USA, INC.

Date: July 14, 2020

By: /s/ Koji Shinohara

Koji Shinohara

Chief Financial Officer, Treasurer and Secretary

(Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.2

PROMISSORY NOTE
PAYCHECK PROTECTION PROGRAM
U.S. SMALL BUSINESS ADMINISTRATION

SBA Loan #	67812471-04
Date	04/14/2020
Loan Amount	$5,983,290.00
Interest Rate	1.00%
Operating Company	
SBA Loan Name	Kura Sushi USA, Inc.
Borrower	Kura Sushi USA, Inc.
Lender	Bank of the West

1. PROMISE TO PAY:

In return for the Loan, Borrower promises to pay to the order of Lender the amount of five million nine hundred eighty-three thousand two hundred ninety and no/100Dollars, interest on the unpaid principal balance, and all other amounts required by this Note.

2. DEFINITIONS:

"Amortization Commencement Date" means the date that is the six (6) month anniversary of the date of initial disbursement on this Note.

"Deferral Period" means a period of six (6) months commencing with the date of initial disbursement on this Note and ending on the day immediately preceding the six (6) month anniversary of such date.

"Loan" means the loan evidenced by this Note.

"Loan Documents" means the documents related to this loan signed by Borrower.

"Maturity Date" shall mean the date that is the two year anniversary of the date of initial disbursement on this Note.

"SBA" means the Small Business Administration, an Agency of the United States of America.

3. PAYMENT TERMS:

Borrower must make all payments at the place Lender designates. The payment terms for this Note are:

The interest rate is 1.00% per annum, fixed for the term of the Note.

Principal and interest payments are deferred during the first six (6) months of the term of this Note (the “Deferral Period”). Interest will continue to accrue on the outstanding principal balance during the Deferral Period.

After proceeds of this Note have been expended by Borrower, but not sooner than eight weeks after the date of initial disbursement on this Note, Borrower may submit to Lender a request for forgiveness of the Loan. Borrower must submit all documentation required by Lender to verify number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations, certifying that the documents are true and that Borrower used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. Lender will notify Borrower within 60 days whether all or part of the requested forgiveness of the Loan has been approved.

If the entire principal balance of this Note and accrued interest is not forgiven before the end of the Deferral Period, then the principal balance together with and all accrued and unpaid interest outstanding on the Amortization Commencement Date shall be paid in eighteen (18) monthly payments, commencing in the month immediately following the Amortization Commencement Date and continuing each month thereafter until the Maturity Date; provided, however, that the last monthly installment shall be on the Maturity Date and shall be in an amount equal to all principal and accrued interest outstanding on the Maturity Date. Monthly payments will be in an amount determined by the Lender to be the amount necessary to fully amortize the principal and interest outstanding on the Amortization Commencement Date over the remaining term of this Note.

Payment must be made on the fifth calendar day in the month it is due.

Lender will apply each installment payment first to pay interest accrued to the day Lender receives payment, then bring principal current, then to pay any late fees, and will apply any remaining balance to reduce principal.

Borrower may prepay this Note at any time without penalty. Borrower must:

a. Give Lender written notice; and

b. Pay all accrued interest.

All remaining principal and accrued interest is due and payable two (2) years from the date of initial disbursement.

Late Charge: If a payment on this Note is more than 10 days late, Lender may charge Borrower a late fee of up to 5.00% of the unpaid portion of the regularly scheduled payment.

4. DEFAULT:

Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower or Operating Company:

A. Fails to do anything required by this Note and other Loan Documents;
B. Defaults on any other loan with Lender;
C. Does not disclose, or anyone acting on their behalf does not disclose, any material fact to Lender or SBA;

D. Makes, or anyone acting on their behalf makes, a materially false or misleading representation to Lender or SBA;
E. Defaults on any loan or agreement with another creditor, if Lender believes the default may materially affect Borrower's ability to pay this Note;
H. Becomes the subject of a proceeding under any bankruptcy or insolvency law;
I. Has a receiver or liquidator appointed for any part of their business or property;
J. Makes an assignment for the benefit of creditors;
K. Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower's ability to pay this Note;
L. Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lender's prior written consent; or
M. Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay this Note.

5. LENDER'S RIGHTS IF THERE IS A DEFAULT:

Without notice or demand and without giving up any of its rights, Lender may:

A. Require immediate payment of all amounts owing under this Note;
B. Collect all amounts owing from Borrower; and
C. File suit and obtain judgment.

6. LENDER'S GENERAL POWERS:

Without notice and without Borrower's consent, Lender may:

A. Incur expenses to collect amounts due under this Note, enforce the terms of this Note or any other Loan Document. Among other things, the expenses may include payments for reasonable attorney's fees and costs. If Lender incurs such expenses, it may demand immediate repayment from Borrower or add the expenses to the principal balance;
B. Release anyone obligated to pay this Note;
C. Take any action necessary to collect amounts owing on this Note.

7. WHEN FEDERAL LAW APPLIES:

When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law to deny any obligation, defeat any claim of SBA, or preempt federal law.

8. SUCCESSORS AND ASSIGNS

Under this Note, Borrower and Operating Company include the successors of each, and Lender includes its successors and assigns.

9. GENERAL PROVISIONS:

A. All individuals and entities signing this Note are jointly and severally liable.
B. Borrower waives all suretyship defenses.
C. Borrower must sign all documents necessary at any time to comply with the Loan Documents and to enable Lender to acquire, perfect, or maintain Lender's liens on Collateral.
D. Lender may exercise any of its rights separately or together, as many times and in any order it chooses. Lender may delay or forgo enforcing any of its rights without giving up any of them.
E. Borrower may not use an oral statement of Lender or SBA to contradict or alter the written terms of this Note.
F. If any part of this Note is unenforceable, all other parts remain in effect.

G. To the extent allowed by law, Borrower waives all demands and notices in connection with this Note, including presentment, demand, protest, and notice of dishonor. Borrower also waives any defenses based upon any claim that Lender did not obtain any guarantee; did not obtain, perfect, or maintain a lien upon Collateral; impaired Collateral; or did not obtain the fair market value of Collateral at a sale.

10. STATE-SPECIFIC PROVISIONS: If Borrower is located in any of the following states, the clause indicated for such state is incorporated herein:

MISSOURI.

Oral or unexecuted agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable, regardless of the legal theory upon which it is based that is in any way related to the credit agreement. To protect you (Borrowers(s)) and us (Creditor) from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.

OREGON.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY LENDER CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY, OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY AN AUTHORIZED REPRESENTATIVE OF LENDER TO BE ENFORCEABLE.

WASHINGTON.

Oral agreements or oral commitments to loan money, extend credit, or to forbear from enforcing repayment of a debt are not enforceable under Washington law

WISCONSIN.

Each Borrower who is married represents that this obligation is incurred in the interest of his or her marriage or family.

11. BORROWER'S NAME(S) AND SIGNATURE(S):

By signing below, each individual or entity becomes obligated under this Note as Borrower.

/s/ Koji Shinohara 4/14/2020

Date

Signature of Authorized Representative of Applicant

CFO

Title

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hajime Uba, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kura Sushi USA, Inc.;

2. Based on my knowledge, this report 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 were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 14, 2020

By: /s/ Hajime Uba
Hajime Uba
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Koji Shinohara, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kura Sushi USA, Inc.;

2. Based on my knowledge, this report 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 were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 14, 2020

By: /s/ Koji Shinohara
Koji Shinohara
Chief Financial Officer, Treasurer and Secretary

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kura Sushi USA, Inc. (the “Company”) on Form 10-Q for the period ending May 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: July 14, 2020

By: /s/ Hajime Uba
Hajime Uba
Chairman, President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kura Sushi USA, Inc. (the “Company”) on Form 10-Q for the period ending May 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: July 14, 2020

By: /s/ Koji Shinohara
Koji Shinohara
Chief Financial Officer, Treasurer and Secretary