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 November 30, 2023

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	**26-3808434**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
17461 Derian Avenue, Suite 200	
Irvine, California	**92614**
(Address of principal executive offices)	**(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**	**The Nasdaq Stock Market LLC**

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, a 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 December 28, 2023, the registrant had 10,163,104 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)

	November 30, 2023	August 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 64,161	$ 69,697
Short-term investments	7,046	8,542
Accounts and other receivables	4,865	5,048
Inventories	1,771	1,747
Due from affiliate	1	104
Prepaid expenses and other current assets	4,204	4,233
Total current assets	82,048	89,371
Non-current assets:		
Property and equipment – net	114,346	106,427
Operating lease right-of-use assets	107,853	103,884
Deposits and other assets	5,050	4,977
Total assets	$ 309,297	$ 304,659
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 8,871	$ 7,248
Accrued expenses and other current liabilities	3,429	2,751
Salaries and wages payable	6,167	7,595
Finance leases – current	52	70
Operating lease liabilities – current	10,457	9,225
Due to affiliate	359	555
Sales tax payable	1,774	1,694
Total current liabilities	31,109	29,138
Non-current liabilities:		
Finance leases – non-current	22	31
Operating lease liabilities – non-current	113,773	110,234
Other liabilities	652	615
Total liabilities	145,556	140,018
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 1,000 shares authorized, no shares issued or outstanding	—	—
Class A common stock, $0.001 par value; 50,000 shares authorized, 10,155 and 10,147 shares issued and outstanding as of November 30, 2023 and August 31, 2023, respectively	10	10
Class B common stock, $0.001 par value; 10,000 shares authorized, 1,000 shares issued and outstanding as of November 30, 2023 and August 31, 2023	1	1
Additional paid-in capital	189,915	188,771
Accumulated deficit	(26,231)	(24,184)
Accumulated other comprehensive income	46	43
Total stockholders' equity	163,741	164,641
Total liabilities and stockholders' equity	$ 309,297	$ 304,659

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

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

	Three Months Ended November 30,	
	2023	**2022**
Sales	$ 51,475	$ 39,318
Restaurant operating costs:		
Food and beverage costs	15,365	12,430
Labor and related costs	16,263	12,535
Occupancy and related expenses	3,908	2,885
Depreciation and amortization expenses	2,476	1,576
Other costs	7,591	5,321
Total restaurant operating costs	45,603	34,747
General and administrative expenses	8,609	6,642
Depreciation and amortization expenses	104	85
Total operating expenses	54,316	41,474
Operating loss	(2,841)	(2,156)
Other expense (income):		
Interest expense	8	16
Interest income	(840)	(94)
Loss before income taxes	(2,009)	(2,078)
Income tax expense	38	10
Net loss	$ (2,047)	$ (2,088)
Net loss per Class A and Class B shares		
Basic	$ (0.18)	$ (0.21)
Diluted	$ (0.18)	$ (0.21)
Weighted average Class A and Class B shares outstanding		
Basic	11,150	9,789
Diluted	11,150	9,789
Other comprehensive income (loss):		
Unrealized gain on short-term investments	$ 3	—
Comprehensive loss	$ (2,044)	$ (2,088)

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				Additional		Accumulated	Total
	Class A		Class B		Paid-in	Accumulated	Other Comprehensive	Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Income	Equity
Balances as of August 31, 2023	10,147	$ 10	1,000	$ 1	$ 188,771	$ (24,184)	$ 43	$ 164,641
Stock-based compensation	—	—	—	—	1,034	—	—	1,034
Employee stock plan	8	—	—	—	110	—	—	110
Net loss	—	—	—	—	—	(2,047)	—	(2,047)
Other comprehensive income	—	—	—	—	—	—	3	3
Balances as of November 30, 2023	10,155	$ 10	1,000	$ 1	$ 189,915	$ (26,231)	$ 46	$ 163,741

	Common Stock				Additional		Total
	Class A		Class B		Paid-in	Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balances as of August 31, 2022	8,788	$ 9	1,000	$ 1	$ 118,970	$ (25,686)	$ 93,294
Stock-based compensation	—	—	—	—	650	—	650
Employee stock plan	3	—	—	—	51	—	51
Net loss	—	—	—	—	—	(2,088)	(2,088)
Balances as of November 30, 2022	8,791	$ 9	1,000	$ 1	$ 119,671	$ (27,774)	$ 91,907

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)

	Three Months Ended November 30, 2023	Three Months Ended November 30, 2022
Cash flows from operating activities		
Net loss	$ (2,047)	$ (2,088)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	2,600	1,661
Stock-based compensation, net of amounts capitalized	1,006	650
Non-cash lease expense	1,070	844
Changes in operating assets and liabilities:		
Accounts and other receivables	93	108
Inventories	(24)	(158)
Due from affiliate	102	122
Prepaid expenses and other current assets	243	(568)
Deposits and other assets	5	43
Accounts payable	(411)	(896)
Accrued expenses and other current liabilities	1,380	1,061
Salaries and wages payable	(1,428)	(474)
Operating lease liabilities	(135)	(162)
Due to affiliate	(22)	567
Sales tax payable	(4)	(181)
Net cash provided by operating activities	2,428	529
Cash flows from investing activities		
Payments for property and equipment	(9,395)	(8,344)
Payments for initial direct costs	(45)	(95)
Payments for purchases of liquor licenses	(79)	(811)
Purchases of short-term investments	(3,000)	—
Redemption of short-term investments	4,499	—
Net cash used in investing activities	(8,020)	(9,250)
Cash flows from financing activities		
Repayment of principal on finance leases	(54)	(178)
Proceeds from exercise of stock options	110	51
Net cash provided by (used in) financing activities	56	(127)
Increase (decrease) in cash and cash equivalents	(5,536)	(8,848)
Cash and cash equivalents, beginning of period	69,697	35,782
Cash and cash equivalents, end of period	$ 64,161	$ 26,934
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ —	$ 65
Noncash investing activities		
Acquisition of finance leases	$ 28	$ —
Amounts unpaid for purchases of property and equipment	$ 2,865	$ 1,095

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 its guests across the United States through affordable prices and an inviting atmosphere. "Kura Sushi USA," "Kura Sushi," "Kura," "our" and the "Company" refer to Kura Sushi USA, Inc. unless expressly indicated or the context otherwise requires.

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 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, 2023.

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 2, Basis of Presentation and Summary of Significant 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, 2023. 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 fiscal year ending August 31, 2024 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 2024" and "fiscal year 2023" refer to the Company's fiscal years ending August 31, 2024 and ended August 31, 2023, 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.

Short-Term Investments

Short-term investments consist of certificates of deposits and Treasury bills. The Company considers all highly liquid investments with an original maturity date greater than three months but less than one year as short-term investments. The carrying value of the short-term investments is equivalent to their amortized cost basis. As of November 30, 2023 and August 31, 2023, short-term investments were $7.0 million and $8.5 million, respectively. The certificates of deposits are deposited at Federal Deposit Insurance Corporation ("FDIC") insured banks. The certificates of deposits are in amounts of $250,000 in multiple banks so that the entire deposit balance is eligible for FDIC insurance. Certificates of deposits and Treasury bills are classified as available-for-sale debt securities which are measured at fair value with unrealized gains or losses recorded in other comprehensive income (loss). As of November 30, 2023, the Company recorded $46 thousand in unrealized gains on short-term investments in accumulated other comprehensive income (loss), which consisted of $48 thousand in unrealized gains on Treasury bills and $2 thousand in unrealized losses on certificates of deposits. The Company reclassified $106 thousand out of accumulated other comprehensive income into earnings for the period related to maturities of certificates of deposits and a Treasury bill, which consisted of $62 thousand in realized gains on certificates of deposits and $44 thousand in realized gains on a Treasury bill. The Company determines realized gains or losses on the available-for-sale debt securities on a specific identification method basis. Based on the evaluation of credit risk factors, the Company has concluded that an allowance for credit losses is unnecessary for its short-term investments.

Comprehensive Income (Loss)

Comprehensive income (loss) 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. The Company's short-term investments consist of certificates of deposits and Treasury bills that are classified as available-for-sale debt securities which are measured at fair value with unrealized gains or losses recorded in other comprehensive income (loss).

Recently Issued Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures", which requires greater disaggregation of income tax disclosures related to the income tax rate reconciliation and income taxes paid and effective for fiscal year beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued. The amendments should be applied on a prospective basis although retrospective application is permitted. The Company is currently in the process of evaluating the effects of this pronouncement on its financial statements and expects the update to result in additional disclosures.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The guidance in this update is effective for all public entities for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company is currently in the process of evaluating the effects of this pronouncement on its financial statements and expects the update to results in additional disclosures.

Note 2. Balance Sheet Components

Accounts and Other Receivables

	November 30, 2023	August 31, 2023
	(amounts in thousands)	
Lease receivables	$ 3,863	$ 3,973
Credit card and other receivables	1,002	1,075
Total accounts and other receivables	$ 4,865	$ 5,048

Property and Equipment - net

	November 30, 2023	August 31, 2023
	(amounts in thousands)	
Leasehold improvements	$ 82,214	$ 75,472
Lease assets	6,247	6,247
Furniture and fixtures	38,911	34,213
Computer equipment	3,059	2,792
Vehicles	220	220
Software	1,017	1,016
Construction in progress	13,160	14,369
Property and equipment – gross	144,828	134,329
Less: accumulated depreciation and amortization	(30,482)	(27,902)
Total property and equipment – net	$ 114,346	$ 106,427

Depreciation and amortization expense for property and equipment was $2.6 million and $1.7 million for the three months ended November 30, 2023 and November 30, 2022, respectively.

Note 3. Leases

The Company has operating and finance leases for its corporate office, restaurant locations, office equipment, kitchen equipment and automobiles. The Company's leases have remaining lease terms of less than 1 year to 20 years, some of which include options to extend the leases.

Lease related costs recognized in the statements of operations and comprehensive income (loss) are as follows:

		Three Months Ended November 30,	
		2023	2022
		(amounts in thousands)	
Finance lease cost	**Classification**		
Amortization of right-of-use assets	Depreciation and amortization expenses	$ 148	$ 235
Interest on lease liabilities	Interest expense	1	4
Total finance lease cost		$ 149	$ 239

		Three Months Ended November 30,	
		2023	2022
		(amounts in thousands)	
Operating lease cost	**Classification**		
Operating lease cost	Occupancy and related expenses, other costs and general and administrative expenses	$ 3,061	$ 2,262
Variable lease cost	Occupancy and related expenses, and general and administrative expenses	851	645
Total operating lease cost		$ 3,912	$ 2,907

Supplemental balance sheet information related to leases is as follows:

Operating Leases

	November 30, 2023	August 31, 2023
	(amounts in thousands)	
Right-of-use assets	$ 107,853	$ 103,884
Lease liabilities – current	$ 10,457	$ 9,225
Lease liabilities – non-current	113,773	110,234
Total lease liabilities	$ 124,230	$ 119,459

Finance Lease Assets – net

	November 30, 2023	August 31, 2023
	(amounts in thousands)	
Property and equipment	$ 6,247	$ 6,247
Accumulated depreciation	(4,092)	(3,945)
Total property and equipment – net	$ 2,155	$ 2,302

Finance Leases Liabilities

	November 30, 2023	August 31, 2023
	(amounts in thousands)	
Finance lease – current	$ 52	$ 70
Finance lease – non-current	22	31
Total finance lease liabilities	$ 74	$ 101

	Three months ended November 30,	
	2023	2022
Weighted Average Remaining Lease Term (Years)		
Operating leases	16.1	16.0
Finance leases	1.4	0.6
Weighted Average Discount Rate		
Operating leases	7.0%	6.6%
Finance leases	4.3%	4.7%

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

	Three Months Ended November 30,	
	2023	2022
	(amounts in thousands)	
Operating cash flows paid for operating lease liabilities	$ 2,425	$ 1,865
Operating right-of-use assets obtained in exchange for new operating lease liabilities	$ 4,990	$ 4,911

As of November 30, 2023, the Company had an additional $43.3 million of operating leases related to restaurants for which the Company had not yet taken possession. Subsequent to November 30, 2023, the Company entered into two additional operating leases related to restaurants for which the Company has not yet taken possession. The lease liabilities associated with the leases after November 30, 2023 is $6.7 million. The operating leases are expected to commence in fiscal year 2024, with a lease terms of 20 years.

Maturities of lease liabilities, net of lease receivables, were as follows:

	Operating Leases	Finance Leases
	(amounts in thousands)	
Remainder of 2024	$ 4,853	$ 48
2025	9,505	24
2026	11,451	4
2027	11,764	—
2028	11,375	—
Thereafter	156,671	—
Total lease payments	205,619	76
Less: imputed interest	(81,389)	(2)
Present value of lease liabilities	$ 124,230	$ 74

Note 4. Related Party Transactions

Kura Sushi, Inc. (“Kura Japan”) is the majority stockholder 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. In exchange for such services, supplies, parts and equipment, the parties 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 payable to Kura Japan are included in general and administrative expenses in the accompanying statements of operations and comprehensive income (loss). 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 for “Kura Sushi,” “Mr. Fresh” 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 and comprehensive income (loss).

On April 10, 2020, the Company and Kura Japan entered into a Revolving Credit Agreement, as amended, to provide the Company a revolving credit line of $45.0 million (the “Revolving Credit Agreement”). For additional information, see “Note 6. Debt.”

Balances with Kura Japan are as follows:

	November 30, 2023	August 31, 2023
	(amounts in thousands)	
Due from affiliate	$ 1	$ 104
Due to affiliate	$ 359	$ 555

Reimbursements and other payments by the Company to Kura Japan were as follows:

	Three Months Ended November 30,	
	2023	2022
	(amounts in thousands)	
Related party transactions:		
Expatriate salaries expense	$ 43	$ 21
Royalty payments	258	197
Travel and other administrative expenses	5	-
Purchases of equipment	640	738
Total related party transactions	$ 946	$ 956

Reimbursements by Kura Japan to the Company were $157 thousand and $34 thousand for the three months ended November 30, 2023 and November 30, 2022, respectively. The reimbursements were primarily for directors and officers liability insurance and other administrative expenses.

Note 5. Stock-based Compensation

The following table summarizes the stock option activity under the Company's 2018 Incentive Compensation Plan, as amended and restated (the "Stock Incentive Plan"):

	Options Outstanding		
	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	
Outstanding — August 31, 2023	653,395	$	34.25
Options granted	16,360	$	72.25
Options exercised	(7,241)	$	15.15
Options cancelled/forfeited	(3,816)	$	56.75
Outstanding — November 30, 2023	658,698	$	35.27

The following table summarizes the restricted stock unit ("RSU") activity under the Stock Incentive Plan:

	Number of Shares Underlying Outstanding RSU	Weighted Average Grant Date Fair Value	
Outstanding — August 31, 2023	31,105	$	69.88
RSUs granted	—		—
RSUs vested	(1,359)	$	73.58
RSUs cancelled/forfeited	(351)	$	62.14
Outstanding — November 30, 2023	29,395	$	69.80

The total stock-based compensation recognized under the Stock Incentive Plan in the statements of operations and comprehensive income (loss) is as follows:

	Three Months Ended November 30,			
	2023		2022	
	(amounts in thousands)			
Restaurant-level stock-based compensation included in other costs	$	147	$	94
Corporate-level stock-based compensation included in general and administrative expenses		887		556
Amount capitalized to Property and Equipment - net		(28)		—
Total stock-based compensation, net of amounts capitalized	$	1,006	$	650

Note 6. Debt

On April 10, 2020, the Company and Kura Japan entered into a Revolving Credit Agreement, as amended, establishing a $45.0 million revolving credit line for the Company. The maturity date for each advance is 60 months from the date of disbursement and the last day of the period of availability for advances is April 10, 2025. The Revolving Credit Note under the Revolving Credit Agreement has an interest rate for advances fixed at 130% of the Annual Compounding Long-Term Applicable Federal Rate ("AFR") on the date such advance is made. There are no financial covenants under the Revolving Credit Agreement with which the Company must comply.

As of November 30, 2023 and August 31, 2023, the Company had no outstanding balance and $45.0 million of availability remaining under the Revolving Credit Agreement. For additional information, see "Note 4. Related Party Transactions."

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 income for the year has been distributed. As the liquidation and dividend rights for Class A and Class B common stock are identical, the net loss attributable to all 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 November 30,			
	2023		2022	
	Class A	Class B	Class A	Class B
	(amounts in thousands, except per share data)			
Net income (loss) attributable to common stockholders	$ (1,863)	$ (184)	$ (1,875)	$ (213)
Weighted average common shares outstanding – basic	10,150	1,000	8,789	1,000
Dilutive effect of stock-based awards	—	—	—	—
Weighted average common shares outstanding – diluted	10,150	1,000	8,789	1,000
Net income (loss) per share attributable to common stockholders – basic	$ (0.18)	$ (0.18)	$ (0.21)	$ (0.21)
Net income (loss) per share attributable to common stockholders – diluted	$ (0.18)	$ (0.18)	$ (0.21)	$ (0.21)

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, and computes diluted income (loss) per common share 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 and restricted stock units.

For the three months ended November 30, 2023 and November 30, 2022, there were 688 thousand and 708 thousand shares of common stock subject to outstanding employee stock options and RSUs that were excluded from the calculation of diluted income per share because their inclusion would have been anti-dilutive.

Note 8. Commitments and 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. On July 9, 2020, plaintiff's counsel filed a first amended class action complaint to add Jamar Spencer, another former employee, as a plaintiff to this action. In addition, the first amended class action complaint added new causes of action alleging violations of California wage and hour laws including a cause of action brought under the California Private Attorney General Act. On August 7, 2020, the Company filed its answer to the first amended complaint, generally denying the allegations in the complaint. In May 2021, a joint stipulation was filed requesting a delay in the class certification hearing date to March 3, 2022, and a mediation was scheduled for September 24, 2021. During the mediation, a settlement was agreed upon in the amount of $1.75 million. The Company recorded an accrued liability of $1.78 million, including an estimated $30 thousand in employer payroll taxes, related to this settlement within general and administrative expenses in the statements of operations and comprehensive income (loss) during the fiscal year ended August 31, 2021. The court granted final approval of the settlement on November 18, 2022. In December 2022, pursuant to the court's order granting final approval of the settlement, the Company deposited $1.78 million into an account controlled by a settlement administrator for disbursement to class participants and other parties to the litigation. A final report regarding the distribution of settlement funds was filed on July 6, 2023. The parties are awaiting the court to sign the amended judgment, which was filed on August 16, 2023

The Company is involved from time to time in various legal proceedings that arise in the ordinary course of 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, excluding the putative class action matter referenced above, will have a material adverse effect on its 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 its 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 $38 thousand and $10 thousand for the three months ended November 30, 2023 and November 30, 2022, respectively. The Company's effective tax rates for the three months ended November 30, 2023 substantially differed from the federal statutory tax rate of 21% primarily due to a valuation allowance for the Company's deferred tax assets.

The Company continually monitors and performs an assessment of the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets using a "more likely than not" standard. In making such assessment, more weight was given to evidence that could be objectively verified, including recent cumulative losses. Based on the Company's review of this evidence, management determined that a full valuation allowance against all of the Company's net deferred tax assets at November 30, 2023 was appropriate.

Note 10. Fair Value Measurements

The following table sets forth the Company's assets measured at fair value on a recurring basis as of November 30, 2023.

	Level 1	Level 2	Level 3	Total
		(amounts in thousands)		
Assets:				
Certificates of deposits	$ —	$ 4,998	$ —	$ 4,998
Treasury bills	2,048	—	—	2,048
Total assets at fair value	$ 2,048	$ 4,998	$ —	$ 7,046

The Company's cash and cash equivalents include cash on hand, deposits in banks, certificates of deposits and money market funds. Due to their short-term nature, the carrying amounts reported in the accompanying balance sheets approximate the fair value of cash and cash equivalents. The fair value of our certificates of deposits are considered using Level 2 inputs of the fair value hierarchy. Level 2 inputs are based on market data that include factors such as interest rates, market and pricing activity and other market-based valuation techniques. The Company determines realized gains or losses on the available-for-sale debt securities on a specific identification method basis.

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 included in this Quarterly Report on Form 10-Q 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, 2023 (the "Annual Report").

In addition to historical information, the following discussion and analysis contains forward-looking statements, such as statements about our plans, objectives, expectations, and intentions, which are based on current expectations and that involve risks, uncertainties and assumptions as set forth and described 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 this Quarterly Report on Form 10-Q.

"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 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

We have experienced inflationary pressures affecting our operations in certain areas such as food and beverage costs, labor costs, construction costs and energy costs. We have been able to offset to some extent these inflationary and other cost pressures through various actions, such as increasing menu prices, productivity improvements, and supply chain initiatives, however, we expect these inflationary and other cost pressures to level out in fiscal year 2024.

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 performance.

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 grow.

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 grow. 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 credit card processing fees, repairs and maintenance, restaurant-level advertising and promotions, restaurant supplies, royalty payments to Kura Japan, stock-based compensation for restaurant-level employees, utilities 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 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 unit base grows.

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 money market funds.

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

Results of Operations

The following tables present selected comparative results of operations for the three months ended November 30, 2023 and 2022. 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 tables below may not recalculate or sum to 100% due to rounding.

	Three Months Ended November 30,			
	2023	**2022**	**$ Change**	**% Change**
	(dollar amounts in thousands)			
Sales	$ 51,475	$ 39,318	$ 12,157	30.9 %
Restaurant operating costs				
Food and beverage costs	15,365	12,430	2,935	23.6
Labor and related costs	16,263	12,535	3,728	29.7
Occupancy and related expenses	3,908	2,885	1,023	35.5
Depreciation and amortization expenses	2,476	1,576	900	57.1
Other costs	7,591	5,321	2,270	42.7
Total restaurant operating costs	45,603	34,747	10,856	31.2
General and administrative expenses	8,609	6,642	1,967	29.6
Depreciation and amortization expenses	104	85	19	22.4
Total operating expenses	54,316	41,474	12,842	31.0
Operating loss	(2,841)	(2,156)	(685)	(31.8)
Other expense (income):				
Interest expense	8	16	(8)	(50.0)
Interest income	(840)	(94)	(746)	793.6
Loss before income taxes	(2,009)	(2,078)	69	(3.3)
Income tax expense	38	10	28	280.0
Net loss	$ (2,047)	$ (2,088)	$ 41	(2.0) %

	Three Months Ended November 30,	
	2023	2022
	(as a percentage of sales)	
Sales	100.0 %	100.0 %
Restaurant operating costs		
Food and beverage costs	29.8	31.6
Labor and related costs	31.6	31.9
Occupancy and related expenses	7.6	7.3
Depreciation and amortization expenses	4.8	4.0
Other costs	14.7	13.5
Total restaurant operating costs	88.6	88.4
General and administrative expenses	16.7	16.9
Depreciation and amortization expenses	0.2	0.2
Total operating expenses	105.5	105.5
Operating loss	(5.5)	(5.5)
Other expense (income):		
Interest expense	-	-
Interest income	(1.6)	(0.2)
Loss before income taxes	(3.9)	(5.3)
Income tax expense	0.1	—
Net loss	(4.0) %	(5.3) %

Three Months Ended November 30, 2023 Compared to Three Months Ended November 30, 2022

Sales. Sales were $51.5 million for the three months ended November 30, 2023 compared to $39.3 million for the three months ended November 30, 2022, representing an increase of $12.2 million, or 30.9%. Comparable restaurant sales increased 3.8% for the three months ended November 30, 2023, as compared to the three months ended November 30, 2022. The increase in sales was primarily driven by the sales resulting from twelve new restaurants opened subsequent to November 30, 2022, as well as increases in menu prices during the same period.

Food and beverage costs. Food and beverage costs were $15.4 million for the three months ended November 30, 2023 compared to $12.4 million for the three months ended November 30, 2022, representing an increase of $3.0 million, or 23.6%. The increase in food and beverage costs was primarily driven by costs associated with sales from twelve new restaurants opened subsequent to November 30, 2022. As a percentage of sales, food and beverage costs decreased to 29.8% in the three months ended November 30, 2023 as compared to 31.6% in the three months ended November 30, 2022, primarily due to increases in menu prices, partially offset by food cost inflation.

Labor and related costs. Labor and related costs were $16.3 million for the three months ended November 30, 2023 compared to $12.5 million for the three months ended November 30, 2022, representing an increase of $3.8 million, or 29.7%. This increase in labor and related costs was primarily driven by additional labor costs incurred from twelve new restaurants opened subsequent to November 30, 2022. As a percentage of sales, labor and related costs decreased to 31.6% in the three months ended November 30, 2023 as compared to 31.9% in the three months ended November 30, 2022. The decrease in cost as a percentage of sales was primarily due to increases in menu prices and technological initiatives, partially offset by increases in wage rates.

Occupancy and related expenses. Occupancy and related expenses were $3.9 million for the three months ended November 30, 2023 compared to $2.9 million for the three months ended November 30, 2022, representing an increase of $1.0 million, or 35.5%. The increase was primarily a result of additional lease expense related to the opening of twelve new restaurants subsequent to November 30, 2022. As a percentage of sales, occupancy and related expenses remained consistent at 7.6% in the three months ended November 30, 2023 as compared to 7.3% in the three months ended November 30, 2022.

Depreciation and amortization expenses. Depreciation and amortization expenses incurred as part of restaurant operating costs were $2.5 million for the three months ended November 30, 2023 compared to $1.6 million for the three months ended November 30, 2022, representing an increase of $0.9 million, or 57.1%. The increase was primarily due to depreciation of property and equipment related to the twelve new restaurants opened subsequent to November 30, 2022. As a percentage of sales, depreciation and amortization expenses at the restaurant level increased to 4.8% in the three months ended November 30, 2023 as compared to 4.0% in the three months ended November 30, 2022. Depreciation and amortization expenses incurred at the corporate level were $0.1 million for both the three months ended November 30, 2023 and November 30, 2022, and as a percentage of sales were both 0.2%, respectively.

Other costs. Other costs were $7.6 million for the three months ended November 30, 2023 compared to $5.3 million for the three months ended November 30, 2022, representing an increase of $2.3 million, or 42.7%. The increase was primarily driven by an increase in costs related to twelve new restaurants opened subsequent to November 30, 2022. As a percentage of sales, other costs increased to 14.7% in the three months ended November 30, 2023 as compared to 13.5% in the three months ended November 30, 2022, primarily driven by general inflationary pressures on advertising and promotion, repairs and maintenance, utilities and travel expenses associated with new restaurant openings.

General and administrative expenses. General and administrative expenses were $8.6 million for the three months ended November 30, 2023 compared to $6.6 million for the three months ended November 30, 2022, representing an increase of $2.0 million, or 29.6%. This increase was primarily due to increases in compensation-related costs of $1.0 million due to additional headcount, $0.5 million of professional fees, $0.3 million in travel expenses and $0.2 million in legal costs. As a percentage of sales, general and administrative expenses remained consistent at 16.7% in the three months ended November 30, 2023 as compared to 16.9% in the three months ended November 30, 2022.

Interest expense. Interest expense was $8 thousand for the three months ended November 30, 2023 compared to $16 thousand for the three months ended November 30, 2022, respectively.

Interest income. Interest income was $840 thousand for the three months ended November 30, 2023 compared to $94 thousand for the three months ended November 30, 2022. The increase was primarily driven by investing our net cash proceeds from our $64.3 million follow-on offering completed in April 2023 into cash and cash equivalents and short-term investments.

Income tax expense. Income tax expense was $38 thousand for the three months ended November 30, 2023 compared to an income tax benefit of $10 thousand for the three months ended November 30, 2022. For further discussion of our income taxes, see "Note 9. Income Taxes" in the Notes to Condensed Financial Statements.

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 performance, and the number of restaurant openings.

Sales

Sales represents sales of food and beverages in restaurants, as shown on our statements of operations and comprehensive income (loss). 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 (loss) 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, such as litigation accrual that we believe are not indicative of our core operating results. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by sales. EBITDA, Adjusted EBITDA and Adjusted EBITDA margin 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, Adjusted EBITDA and Adjusted EBITDA margin 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, Adjusted EBITDA and Adjusted EBITDA margin provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our 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, Adjusted EBITDA and Adjusted EBITDA margin 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 and Adjusted EBITDA margin may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted EBITDA and Adjusted EBITDA margin in the same fashion.

Because of these limitations, EBITDA, Adjusted EBITDA and Adjusted EBITDA margin 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, Adjusted EBITDA and Adjusted EBITDA margin on a supplemental basis. You should review the reconciliation of net income (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDA margin below and not rely on any single financial measure to evaluate our business.

The following table reconciles net loss to EBITDA and Adjusted EBITDA:

	Three Months Ended November 30,	
	2023	**2022**
	(amounts in thousands)	
Net loss	$ (2,047)	$ (2,088)
Interest income, net	(832)	(78)
Income tax expense	38	10
Depreciation and amortization expenses	2,580	1,661
EBITDA	(261)	(495)
Stock-based compensation expense[(a)]	1,006	650
Non-cash lease expense[(b)]	817	482
Litigation accrual[(c)]	205	—
Adjusted EBITDA	$ 1,767	$ 637
Adjusted EBITDA margin	3.4%	1.6%

(a) Stock-based compensation expense includes non-cash stock-based compensation, which is comprised of restaurant-level stock-based compensation included in other costs and of corporate-level stock-based compensation included in general and administrative expenses in the statements of operations and comprehensive income (loss). For further details of stock-based compensation, see “Note 5. Stock-based Compensation” in the notes to condensed financial statements included in this Quarterly Report on Form 10-Q.

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

(c) Litigation accrual includes an accrual related to a litigation claim.

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

Restaurant-level Operating Profit (Loss) is defined as operating income (loss) plus depreciation and amortization; stock-based compensation expense; pre-opening costs and general and administrative expenses which are considered normal, recurring, cash operating expenses and are essential to support 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 recognized within general and administrative expenses. Restaurant-level Operating Profit (Loss) margin is defined as Restaurant-level Operating Profit (Loss) divided by sales. Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin 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 Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results, as this measure depicts normal, recurring cash operating expenses essential to supporting the development and operations of our restaurants. 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 expect Restaurant-level Operating Profit (Loss) to increase in proportion to the number of new restaurants we open and our comparable restaurant sales growth.

We present Restaurant-level Operating Profit (Loss) 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 (Loss) to measure operating performance and returns from opening new restaurants. Restaurant-level Operating Profit (Loss) margin allows us to evaluate the level of Restaurant-level Operating Profit (Loss) generated from sales.

However, you should be aware that Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin are financial measures which are not indicative of overall results for the Company, and Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) 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 (Loss) and Restaurant-level Operating Profit (Loss) 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 (Loss) and Restaurant-level Operating Profit (Loss) margin may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin in the same fashion. Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP.

The following table reconciles operating loss to Restaurant-level Operating Profit and Restaurant-level Operating Profit margin:

	Three Months Ended November 30,	
	2023	2022
	(amounts in thousands)	
Operating loss	$ (2,841)	$ (2,156)
Depreciation and amortization expenses	2,580	1,661
Stock-based compensation expense[(a)]	1,006	650
Pre-opening costs[(b)]	749	437
Non-cash lease expense[(c)]	817	482
General and administrative expenses	8,609	6,642
Corporate-level stock-based compensation in general and administrative expenses	(859)	(556)
Restaurant-level operating profit	$ 10,061	$ 7,160
Operating loss margin	(5.5)%	(5.5)%
Restaurant-level operating profit margin	19.5%	18.2%

(a) Stock-based compensation expense includes non-cash stock-based compensation, which is comprised of restaurant-level stock-based compensation included in other costs and of corporate-level stock-based compensation included in general and administrative expenses in the statements of operations and comprehensive income (loss). For further details of stock-based compensation, see “Note 5. Stock-based Compensation” in the notes to condensed financial statements included in this Quarterly Report on Form 10-Q.

(b) Pre-opening costs consist of labor costs and travel expenses for new employees and trainers during the training period, recruitment fees, legal fees, cash-based lease expenses incurred between the date of possession and opening day of our restaurants, and other related pre-opening costs.

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

Comparable Restaurant Sales Performance

Comparable restaurant sales performance 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. For restaurants that were temporarily closed for consecutive days, which primarily occurs during renovations, the comparative period was also adjusted.

Measuring our comparable restaurant sales performance 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 performance is only one measure of how we evaluate our performance. The following table shows the comparable restaurant sales performance:

	Three Months Ended November 30,	
	2023	2022
Comparable restaurant sales performance (%)	3.8%	6.9%
Comparable restaurant base	36	30

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:

	Three Months Ended November 30,	
	2023	2022
Restaurant activity:		
Beginning of period	50	40
Openings	4	2
End of period	54	42

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.

On April 13, 2023, we completed an underwritten public offering of common stock pursuant to our universal shelf registration statement on Form S-3, selling an aggregate of 1,265,000 shares of Class A common stock, including the exercise in full of the underwriters' option to purchase 165,000 additional shares, at the price of $54.00 per share less an underwriting discount of $2.70 per share. We received aggregate net proceeds of $64.3 million after deducting the underwriting discounts and commissions and offering expenses payable by us. The proceeds are to be used for general corporate purposes, including capital expenditures, working capital, and other business purposes. No payments were made by us to directors, officers or persons owning 10% or more of our common stock or to their associates, or to our affiliates.

During the three months ended November 30, 2023, we had no borrowings under the Revolving Credit Agreement and have $45.0 million of availability remaining. As of November 30, 2023, we did not have any material off-balance sheet arrangements.

The significant components of our working capital are liquid assets such as cash, cash equivalents, receivables and short-term investments 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, short-term investments and availability under our existing Revolving Credit Agreement, 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, cash on hand and short-term investments. 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:

	Three Months Ended November 30,	
	2023	**2022**
Statement of Cash Flow data:	**(amounts in thousands)**	
Net cash provided by operating activities	$ 2,428	$ 529
Net cash used in investing activities	$ (8,020)	$ (9,250)
Net cash provided by (used in) financing activities	$ 56	$ (127)

Cash Flows Provided by Operating Activities

Net cash provided by operating activities during the three months ended November 30, 2023 was $2.4 million, primarily due to a net loss of $2.0 million, non-cash charges of $2.6 million for depreciation and amortization, $1.0 million for stock-based compensation, and $1.1 million in non-cash lease expense, and net cash outflows of $0.2 million from changes in operating assets and liabilities.

Net cash provided by operating activities during the three months ended November 30, 2022 was $0.5 million, primarily due to a net loss of $2.1 million, non-cash charges of $1.7 million for depreciation and amortization, $0.7 million for stock-based compensation, and $0.8 million in non-cash lease expense, and net cash outflows of $0.5 million from changes in operating assets and liabilities.

Cash Flows Used in Investing Activities

Net cash used in investing activities during the three months ended November 30, 2023 was $8.0 million, primarily due to $3.0 million in purchases of short-term investments, $9.4 million in purchases of property and equipment and $0.1 million in purchases of liquor licenses offset by $4.5 million of redemption of short-term investments. The increase in purchases of property and equipment in the three months ended November 30, 2023 is primarily related to capital expenditures for current and future restaurant openings and renovations, maintaining our existing restaurants and other projects.

Net cash used in investing activities during the three months ended November 30, 2022 was $9.3 million, primarily due to $8.3 million in purchases of property and equipment and $0.8 million in purchases of liquor licenses. The purchases of property and equipment in the three months ended November 30, 2022 is primarily related to capital expenditures for current and future restaurant openings and renovations, maintaining our existing restaurants and other projects.

Cash Flows Provided by (Used in) Financing Activities

Net cash provided by financing activities during the three months ended November 30, 2023 was $56 thousand and is primarily due to $110 thousand of proceeds from exercise of stock options offset by $54 thousand in repayments of principal on finance leases.

Net cash used in financing activities during the three months ended November 30, 2022 was $0.1 million and is primarily due to $0.2 million in repayments of principal on finance leases.

Material Cash Requirements

As of November 30, 2023, we had $9.1 million in contractual obligations relating to the construction of new restaurants and purchase commitments for goods related to restaurant operations. All contractual obligations are expected to be paid during the next 12 months utilizing cash and cash equivalents on hand and provided by operations. For operating and finance lease obligations, see “Note 3. Leases” in the Notes to Condensed Financial Statements included in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

For a description of our recently adopted accounting pronouncement, including the respective date of adoption and expected effect 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. Our critical accounting estimates are those that 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. We believe the assessment of potential impairments of long-lived assets is affected by significant judgments and estimates used in the preparation of our financial statements and that the judgments and estimates are reasonable.

There have been no 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 31, 2023. 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 31, 2023 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 our annual gross revenues exceed $1.235 billion 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, or August 31, 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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 beverages 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 menu prices increase or operational adjustments cannot offset such increases.

Inflation Risk

The primary inflationary factors affecting our operations are food and beverage costs, labor costs, construction costs and energy costs. Our restaurant operations are subject to federal and state minimum wage and other laws governing 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, although inflationary pressures have increased across our business, including with respect to food and beverage costs, due in part to supply chain impacts of overall economic conditions in the markets in which we operate. 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 increased menu prices can offset future cost increases or that our guests will fully absorb increased menu prices without any resulting change to their visit frequencies or purchasing patterns. In addition, there can be no assurance that we will generate the same 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 Quarterly Report on Form 10-Q.

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 Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) 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.

For a description of our legal proceedings, see Part I, Item 1, Note 8 – Commitments and Contingencies, of the Notes to Condensed Financial Statements of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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, 2023. There have been no material changes to our Risk Factors as therein previously reported.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

During the three months ended November 30, 2023, the Company did not, nor did any director or officer of the Company, adopt or terminate a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits.

Exhibit Number	Description
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	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

* 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: January 4, 2024

By: /s/ Jeffrey Uttz

Jeffrey Uttz
Chief Financial Officer
(Principal Financial Officer)

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 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. 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

    d. 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: January 4, 2024

/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, Jeffrey Uttz, 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 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. 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

    d. 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: January 4, 2024

/s/ Jeffrey Uttz
Jeffrey Uttz
Chief Financial Officer

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 November 30, 2023 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: January 4, 2024

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 November 30, 2023 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: January 4, 2024

By: /s/ Jeffrey Utz
Jeffrey Uttz
Chief Financial Officer