

**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, 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)
17461 Derian Avenue, Suite 200
Irvine, California
(Address of principal executive offices)

26-3808434
(I.R.S. Employer
Identification No.)

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 January 5, 2021, the registrant had 7,371,636 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.

Table of Contents

	<u>Page</u>
PART I.	
	<u>FINANCIAL INFORMATION</u>
Item 1.	Financial Statements (Unaudited)
	Condensed Balance Sheets
	Condensed Statements of Operations
	Condensed Statements of Stockholders' Equity
	Condensed Statements of Cash Flows
	Notes to Condensed Financial Statements
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures
PART II.	
	<u>OTHER INFORMATION</u>
Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Mine Safety Disclosures
Item 5.	Other Information
Item 6.	Exhibits
	Signatures

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	November 30, 2020	August 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,745	\$ 9,259
Accounts receivable	1,995	2,130
Inventories	454	367
Due from affiliate	239	12
Prepaid expenses and other current assets	3,074	3,010
Total current assets	8,507	14,778
Non-current assets:		
Property and equipment - net	49,816	45,541
Operating lease right-of-use assets	55,028	56,119
Deposits and other assets	2,042	1,941
Total assets	\$ 115,393	\$ 118,379
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,890	\$ 4,919
Accrued expenses and other current liabilities	991	720
Salaries and wages payable	2,609	1,786
Finance leases - current	1,033	1,004
Operating lease liabilities - current	5,236	5,106
Due to affiliate	69	201
Sales tax payable	315	189
Total current liabilities	15,143	13,925
Non-current liabilities:		
Loan from affiliate	3,000	—
Finance leases - non-current	1,194	1,481
Operating lease liabilities - non-current	55,988	56,918
Other liabilities	345	342
Total liabilities	75,670	72,666
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, 7,364 and 7,342 shares issued and outstanding as of November 30, 2020 and August 31, 2020, respectively	7	7
Class B common stock, \$0.001 par value; 10,000 shares authorized, 1,000 shares issued and outstanding as of November 30, 2020 and August 31, 2020	1	1
Additional paid-in capital	60,692	60,332
Accumulated deficit	(20,977)	(14,627)
Total stockholders' equity	39,723	45,713
Total liabilities and stockholders' equity	\$ 115,393	\$ 118,379

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 November 30,	
	2020	2019
Sales	\$ 9,414	\$ 17,440
Restaurant operating costs:		
Food and beverage costs	3,053	5,693
Labor and related costs	4,360	5,641
Occupancy and related expenses	1,690	1,439
Depreciation and amortization expenses	927	663
Other costs	2,079	2,047
Total restaurant operating costs	12,109	15,483
General and administrative expenses	3,521	3,326
Depreciation and amortization expenses	75	22
Total operating expenses	15,705	18,831
Operating loss	(6,291)	(1,391)
Other expense (income):		
Interest expense	34	34
Interest income	(4)	(197)
Loss before income taxes	(6,321)	(1,228)
Income tax expense (benefit)	29	(4)
Net loss	\$ (6,350)	\$ (1,224)
Net loss per Class A and Class B shares		
Basic	\$ (0.76)	\$ (0.15)
Diluted	\$ (0.76)	\$ (0.15)
Weighted average Class A and Class B shares outstanding		
Basic	8,348	8,335
Diluted	8,348	8,335

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 Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Class A		Class B				
	Shares	Amount	Shares	Amount			
Balances as of August 31, 2020	7,342	\$ 7	1,000	\$ 1	\$ 60,332	\$ (14,627)	\$ 45,713
Stock-based compensation	—	—	—	—	266	—	266
Net loss	—	—	—	—	—	(6,350)	(6,350)
Exercise of stock options	22	—	—	—	94	—	94
Balances as of November 30, 2020	<u>7,364</u>	<u>\$ 7</u>	<u>1,000</u>	<u>\$ 1</u>	<u>\$ 60,692</u>	<u>\$ (20,977)</u>	<u>\$ 39,723</u>

	Common Stock				Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Class A		Class B				
	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	<u>7,335</u>	<u>\$ 7</u>	<u>1,000</u>	<u>\$ 1</u>	<u>\$ 59,563</u>	<u>\$ 1,507</u>	<u>\$ 61,078</u>

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,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (6,350)	\$ (1,224)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,002	685
Stock-based compensation	266	121
Loss on disposal of property and equipment	29	4
Deferred income taxes	—	(4)
Noncash lease expense	682	586
Changes in operating assets and liabilities:		
Accounts receivable	(19)	(100)
Inventories	(87)	106
Due from affiliate	(227)	192
Prepaid expenses and other current assets	(64)	192
Deposits and other assets	(1)	(38)
Accounts payable	801	(1,034)
Accrued expenses and other current liabilities	482	(607)
Salary and wages payable	823	11
Operating lease liabilities	(238)	(430)
Due to affiliate	44	49
Sales tax payable	126	(47)
Net cash used in operating activities	(2,731)	(1,538)
Cash flows from investing activities		
Payments for property and equipment	(6,519)	(3,194)
Payments for purchases of liquor licenses	(100)	(50)
Net cash used in investing activities	(6,619)	(3,244)
Cash flows from financing activities		
Proceeds from loan from affiliate	3,000	—
Repayment of principal on finance leases	(258)	(252)
Proceeds from exercise of stock options	94	—
Net cash provided by (used in) financing activities	2,836	(252)
Decrease in cash and cash equivalents	(6,514)	(5,034)
Cash and cash equivalents, beginning of period	9,259	38,044
Cash and cash equivalents, end of period	\$ 2,745	\$ 33,010
Noncash investing activities		
Amounts unpaid for purchases of property and equipment	\$ 1,214	\$ 293

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

Kura Sushi USA, Inc.
Notes to Condensed Financial Statements
(Unaudited)

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,” 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. As of November 30, 2020, the Company had 27 of its 28 restaurants open in some capacity: indoor dining, outdoor dining or takeout only. Subsequent to November 30, 2020, the Company opened one new restaurant in Aventura, Florida and as of the filing date of this Quarterly Report on Form 10-Q, the Company had all 29 restaurants open, with 16 of them in California and Washington DC only providing takeout, one restaurant in Illinois providing outdoor dining only and the remaining 12 restaurants operating at reduced indoor capacities of 25% to 75% depending on local requirements.

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. 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 reduced capacities at open restaurants and the temporary closure of one restaurant have caused a substantial decline in the Company’s sales in the most recent fiscal quarter compared to the same quarter last year. In response to the challenges posed by the COVID-19 pandemic, the Company is focused on maximizing its in-restaurant dining capacity as permitted by the jurisdictions where it operates, mobile ordering and takeout, continuing to provide a safe environment for its employees and customers, maintaining its operational efficiencies as much as possible and preserving its liquidity. In line with the Company’s long-term growth strategy, it expects to continue to open new restaurants at locations where it believes the restaurants have the potential to achieve profitability. The future sales levels of the Company’s restaurants and its ability to implement its growth strategy, however, remain highly uncertain, as the full impact and duration of the COVID-19 pandemic continues to evolve as of the filing date of this Quarterly Report on Form 10-Q.

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 (the “Revolving Credit Agreement”) establishing a \$20 million revolving credit line. On September 2, 2020, the Company and Kura Japan entered into a First Amendment to Revolving Credit Agreement (the “First Amendment”) to (i) increase the maximum credit amount under the credit line from \$20 million to \$35 million, (ii) extend the maturity date for each advance from 12 months to 60 months from the date of disbursement and (iii) extend the last day of the period of availability for the advances under the credit line from March 31, 2024 to April 10, 2025. In connection with the First Amendment, the Revolving Credit Note under the Revolving Credit Agreement was also amended by incorporating the same amendments as provided under the First Amendment. For additional information, see “Note 4. Related Party Transactions” and “Note 6. Debt.”

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 November 30, 2020. The Company continues to have discussions with its landlords regarding potential future rent concessions.

Due to the ongoing impact of COVID-19, the Company assessed its long-lived assets for potential impairment, which resulted in no impairment charges recorded as of November 30, 2020.

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, 2020.

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, 2020. 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, 2021 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 2021," "fiscal year 2020" and "fiscal year 2019" refer to the Company's fiscal years ending August 31, 2021, and ended August 31, 2020 and August 31, 2019, 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 Loss

Comprehensive 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. Comprehensive loss is the same as net loss for all periods presented. Therefore, a separate statement of comprehensive loss is not included in the accompanying financial statements.

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

	November 30, 2020	August 31, 2020
	(amounts in thousands)	
Lease receivable	\$ 1,651	\$ 1,811
Credit card receivable	316	281
Other receivables	28	38
Total accounts receivable	<u>\$ 1,995</u>	<u>\$ 2,130</u>

Property and Equipment - net

	November 30, 2020	August 31, 2020
	(amounts in thousands)	
Leasehold improvements	\$ 36,228	\$ 30,497
Lease assets	6,102	6,117
Furniture and fixtures	10,008	7,908
Computer equipment	713	696
Vehicles	88	88
Software	787	689
Construction in progress	6,914	9,558
Property and equipment, gross	60,840	55,553
Less: accumulated depreciation and amortization	(11,024)	(10,012)
Total property and equipment - net	\$ 49,816	\$ 45,541

Depreciation and amortization expense for property and equipment was approximately \$1.0 million and \$0.7 million for the three months ended November 30, 2020 and November 30, 2019, respectively.

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. 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. 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 within 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 - non-current," respectively. Finance leases are accounted for on the balance sheet within ROU assets and lease liabilities recognized in "Property and equipment - net", "Finance lease - current" and "Finance lease - non-current," respectively.

Lease assets and liabilities are recognized at the lease commencement date. 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 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.

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 the Company's restaurants are accrued based on estimated sales.

Lease related costs recognized in the statements of operations for the three months ended November 30, 2020 and November 30, 2019 are as follows:

		Three months ended November 30,	
		2020	2019
		(amounts in thousands)	
Finance lease cost	Classification		
Amortization of right-of-use assets	Depreciation and amortization expenses	\$ 151	\$ 133
Interest on lease liabilities	Interest expense	23	34
Total finance lease cost		<u>\$ 174</u>	<u>\$ 167</u>

		Three months ended November 30,	
		2020	2019
		(amounts in thousands)	
Operating lease cost	Classification		
Operating lease cost	Occupancy and related expenses, other costs and general and administrative expenses	\$ 1,567	\$ 1,161
Variable lease cost	Occupancy and related expenses, and general and administrative expenses	245	310
Total operating lease cost		<u>\$ 1,812</u>	<u>\$ 1,471</u>

Supplemental balance sheet information related to leases is as follows:

Operating Leases

	November 30, 2020	August 31, 2020
	(amounts in thousands)	
Right-of-use assets	<u>\$ 55,028</u>	<u>\$ 56,119</u>
Lease liabilities – current	\$ 5,236	\$ 5,106
Lease liabilities – non-current	55,988	56,918
Total lease liabilities	<u>\$ 61,224</u>	<u>\$ 62,024</u>

Finance Lease Assets - net

	November 30, 2020	August 31, 2020
	(amounts in thousands)	
Finance lease assets	\$ 6,102	\$ 6,117
Accumulated depreciation	(2,329)	(2,178)
Total finance lease assets - net	<u>\$ 3,773</u>	<u>\$ 3,939</u>

Finance Leases Liabilities

	November 30, 2020	August 31, 2020
	(amounts in thousands)	
Finance lease liabilities - current	\$ 1,033	\$ 1,004
Finance lease liabilities - non-current	1,194	1,481
Total finance lease liabilities	<u>\$ 2,227</u>	<u>\$ 2,485</u>

	November 30,	
	2020	2019
Weighted Average Remaining Lease Term (Years)		
Operating leases	16.2	15.7
Finance leases	2.2	3.1
Weighted Average Discount Rate		
Operating leases	6.4%	5.8%
Finance leases	4.4%	4.4%

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

	Three months ended November 30,	
	2020	2019
	(amounts in thousands)	
Operating cash flows paid for operating lease liabilities	\$ 907	\$ 881
Operating right-of-use assets obtained in exchange for new operating lease liabilities	\$ —	\$ 5,556

As of November 30, 2020, the Company has additional operating lease liabilities related to restaurants of which the Company has not yet taken possession of \$13.7 million. These operating leases are expected to commence in fiscal year 2021 with lease terms of 20 years.

Maturities of lease liabilities were as follows as of November 30, 2020:

	Operating Leases		Finance Leases	
	(amounts in thousands)			
Remainder of 2021	\$	2,167	\$	821
2022		4,715		1,005
2023		5,721		483
2024		5,847		17
2025		5,977		2
Thereafter		73,014		—
Total lease payments		97,441		2,328
Less: imputed interest		(36,217)		(101)
Present value of lease liabilities	\$	61,224	\$	2,227

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 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, which was subsequently amended on September 2, 2020, to provide the Company a credit line of \$35 million. For additional information, see “Note 6. Debt.”

Balances with Kura Japan as of November 30, 2020 and August 31, 2020 are as follows:

	November 30, 2020	August 31, 2020
	(amounts in thousands)	
Due from affiliate	\$ 239	\$ 12
Due to affiliate	69	201
Loan from affiliate	3,000	—

Reimbursements by the Company to Kura Japan for the three months ended November 30, 2020 and November 30, 2019 were as follows:

	Three Months Ended November 30,	
	2020	2019
	(amounts in thousands)	
Related party transactions:		
Purchases of administrative supplies	\$ 65	\$ 7
Expatriate salaries expense	31	39
Royalty payments	47	87
Travel and other administrative expenses	13	35
Purchases of equipment	366	343
Total related party transactions	<u>\$ 522</u>	<u>\$ 511</u>

Reimbursements by Kura Japan to the Company for the three months ended November 30, 2020 and November 30, 2019 were \$5 thousand and \$34 thousand, respectively. The reimbursements were for travel and translation expenses.

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, 2020 through November 30, 2020:

	Options Outstanding	
	Number of shares underlying outstanding options	Weighted Average Exercise Price Per Share
Outstanding—August 31, 2020	531,747	\$ 9.51
Options exercised	(21,979)	4.26
Options canceled/forfeited	(4,265)	14.43
Outstanding—November 30, 2020	<u>505,503</u>	\$ 9.70

Subsequent to November 30, 2020 and as of the filing date of this Quarterly Report on Form 10-Q, the Company granted 50 thousand options and 7 thousand restricted stock awards.

Stock-based compensation for stock options issued under the Stock Incentive Plan was \$0.3 million and \$0.1 million for the three months ended November 30, 2020 and November 30, 2019 respectively.

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

	Three Months Ended November 30,	
	2020	2019
	(amounts in thousands)	
Restaurant-level stock-based compensation included in other costs	\$ 23	\$ 16
Corporate-level stock-based compensation included in general and administrative expenses	\$ 243	105
Total stock-based compensation	\$ 266	\$ 121

Note 6. Debt

On April 10, 2020, the Company and Kura Japan entered into a Revolving Credit Agreement establishing a \$20 million revolving credit line for the Company. On September 2, 2020, the Company and Kura Japan entered into a First Amendment to Revolving Credit Agreement (the "First Amendment") to (i) increase the maximum credit amount under the credit line from \$20 million to \$35 million, (ii) extend the maturity date for each advance from 12 months to 60 months from the date of disbursement and (iii) extend the last day of the period of availability for the advances under the credit line from March 31, 2024 to April 10, 2025. In connection with the First Amendment, the Revolving Credit Note under the Revolving Credit Agreement was also amended by incorporating the same amendments as provided under the First Amendment. There are no financial covenants under the Revolving Credit Agreement with which the Company must comply.

As of November 30, 2020, the Company had borrowed \$3.0 million under the Revolving Credit Agreement at a fixed interest rate of 1.1%. Interest expense for the three months ended November 30, 2020 was immaterial. Subsequent to November 30, 2020 and as of the filing date of this Quarterly Report on Form 10-Q, the Company borrowed an additional \$6.0 million and has \$26 million of availability remaining under the Revolving Credit Agreement.

Note 7. Loss Per Share

The net 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 the liquidation and dividend rights for Class A and Class B common stock are identical, the net 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 loss per share:

	Three Months Ended November 30,			
	2020		2019	
	Class A	Class B	Class A	Class B
	(amounts in thousands, except per share data)			
Net loss attributable to common stockholders - basic	\$ (5,589)	\$ (761)	\$ (1,077)	\$ (147)
Weighted average common shares outstanding - basic	7,348	1,000	7,335	1,000
Net loss per share attributable to common stockholders - basic	\$ (0.76)	\$ (0.76)	\$ (0.15)	\$ (0.15)
Net loss attributable to common stockholders - diluted	\$ (5,589)	\$ (761)	\$ (1,077)	\$ (147)
Weighted average shares outstanding - basic	7,348	1,000	7,335	1,000
Options to purchase common stock	—	—	—	—
Weighted average shares outstanding - diluted	7,348	1,000	7,335	1,000
Net loss per share attributable to common stockholders - diluted	\$ (0.76)	\$ (0.76)	\$ (0.15)	\$ (0.15)

The Company computes basic loss per common share using net loss and the weighted average number of common shares outstanding during the period. Diluted loss per common share is computed using net 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 November 30, 2020 and November 30, 2019, there were approximately 506 thousand and 404 thousand shares of common stock subject to outstanding employee stock options, respectively, that were excluded from the calculation of diluted loss 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. The Company 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 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 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 income tax expense of \$29 thousand and income tax benefit of \$4 thousand for the three months ended November 30, 2020 and November 30, 2019, respectively. The Company's effective tax rate for the three months ended November 30, 2020 substantially differed from the federal statutory tax rate of 21 percent 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, 2020 was appropriate.

On December 27, 2020, Congress passed, and President Trump signed into law, the Consolidated Appropriations Act, 2021 (the "Act"), which includes certain business tax provisions. The Company does not expect the Act to have a material impact on the Company's effective tax rate or income tax expense for the fiscal year ending August 31, 2021.

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, 2020 (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

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. As of November 30, 2020, we had 27 of our 28 restaurants open in some capacity: indoor dining, outdoor dining or takeout only. Subsequent to November 30, 2020, we opened one new restaurant in Aventura, Florida and as of the filing date of this Quarterly Report on Form 10-Q, we had all 29 restaurants open, with 16 of them in California and Washington DC only providing takeout, one restaurant in Illinois providing outdoor dining only and the remaining 12 restaurants operating at reduced indoor capacities of 25% to 75% depending on local requirements.

In response to the ongoing COVID-19 pandemic, we have prioritized taking steps to protect the health and safety of our employees and customers. We have 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 have also provided 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 reduced capacities at open restaurants and temporary closure of one restaurant have caused a substantial decline in our sales in the most recent fiscal quarter compared to the same quarter last year. In response to the challenges posed by the COVID-19 pandemic, we have focused on maximizing our in-restaurant dining capacity as permitted by the jurisdictions where we operate, mobile ordering and takeout, continuing to provide a safe environment for our employees and customers, maintaining our operational efficiencies as much as possible and preserving our liquidity. In line with our long-term growth strategy, we expect to continue to open new restaurants at locations where we believe the restaurants have the potential to achieve profitability. The future sales levels of our restaurants and our ability to implement our growth strategy, however, remain highly uncertain, as the full impact and duration of the COVID-19 pandemic continues to evolve as of the filing date of this Quarterly Report on Form 10-Q.

Recent Events Concerning Our Financial Position

On April 10, 2020, we and Kura Japan, entered into a Revolving Credit Agreement (the “Revolving Credit Agreement”) establishing a \$20 million revolving credit line for us. On September 2, 2020, we and Kura Japan entered into a First Amendment to Revolving Credit Agreement (the “First Amendment”) to (i) increase the maximum credit amount under the credit line from \$20 million to \$35 million, (ii) extend the maturity date for each advance from 12 months to 60 months from the date of disbursement and (iii) extend the last day of the period of availability for the advances under the credit line from March 31, 2024 to April 10, 2025. In connection with the First Amendment, the Revolving Credit Note under the Revolving Credit Agreement was also amended by incorporating the same amendments as provided under the First Amendment. In November 2020, we borrowed \$3.0 million under the Revolving Credit Agreement. Subsequent to November 30, 2020 and as of the filing date of this Quarterly Report on Form 10-Q, we borrowed an additional \$6.0 million under the Revolving Credit Agreement. See “Note 4. Related Party Transactions” and “Note 6. Debt” in the Notes to Condensed Financial Statements for further discussion.

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 November 30, 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 November 30, 2020.

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 and amortization of fixed assets, including equipment and capitalized leasehold improvements. Depreciation and amortization are 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 unit base grows, including incremental legal, accounting, insurance and other expenses.

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 November 30, 2020 and November 30, 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 November 30,		Increase / (Decrease)	
	2020	2019	2020 vs 2019	
	(dollar amounts in thousands)			
Sales	\$ 9,414	\$ 17,440	\$ (8,026)	(46.0) %
Restaurant operating costs:				
Food and beverage costs	3,053	5,693	(2,640)	(46.4)
Labor and related costs	4,360	5,641	(1,281)	(22.7)
Occupancy and related expenses	1,690	1,439	251	17.4
Depreciation and amortization expenses	927	663	264	39.8
Other costs	2,079	2,047	32	1.6
Total restaurant operating costs	12,109	15,483	(3,374)	(21.8)
General and administrative expenses	3,521	3,326	195	5.9
Depreciation and amortization expenses	75	22	53	240.9
Total operating expenses	15,705	18,831	(3,126)	(16.6)
Operating loss	(6,291)	(1,391)	(4,900)	(352.3)
Other expense (income):				
Interest expense	34	34	—	—
Interest income	(4)	(197)	193	(98.0)
Loss before income taxes	(6,321)	(1,228)	(5,093)	(414.7)
Income tax expense (benefit)	29	(4)	33	825.0
Net loss	\$ (6,350)	\$ (1,224)	\$ (5,126)	(418.8) %

	Three Months Ended November 30,	
	2020	2019
	(as a percentage of sales)	
Sales	100.0 %	100.0 %
Restaurant operating costs:		
Food and beverage costs	32.4	32.6
Labor and related costs	46.3	32.3
Occupancy and related expenses	18.0	8.3
Depreciation and amortization expenses	9.8	3.8
Other costs	22.1	11.7
Total restaurant operating costs	128.6	88.7
General and administrative expenses	37.4	19.1
Depreciation and amortization expenses	0.8	0.1
Total operating expenses	166.8	107.9
Operating loss	(66.8)	(7.9)
Other expense (income):		
Interest expense	0.4	0.2
Interest income	—	(1.1)
Loss before income taxes	(67.2)	(7.0)
Income tax expense (benefit)	0.3	—
Net loss	(67.5) %	(7.0) %

Three Months Ended November 30, 2020 Compared to Three Months Ended November 30, 2019

Sales. Sales were \$9.4 million for the three months ended November 30, 2020 compared to \$17.4 million for the three months ended November 30, 2019, representing a decrease of approximately \$8.0 million or 46.0%. The decrease in sales was primarily driven by reduced level of operating capacities of our restaurants due to local government restrictions in response to the COVID-19 pandemic during the three months ended November 30, 2020, partially offset by sales from the opening of five new restaurants subsequent to November 30, 2019.

Food and beverage costs. Food and beverage costs were \$3.1 million for the three months ended November 30, 2020 compared to \$5.7 million for the three months ended November 30, 2019, representing a decrease of approximately \$2.6 million or 46.4%. The decrease in food and beverage costs was primarily driven by reduced level of operating capacities of our restaurants due to local government restrictions in response to the COVID-19 pandemic during the three months ended November 30, 2020, partially offset by the costs associated with sales from the opening of five new restaurants subsequent to November 30, 2019. As a percentage of sales, food and beverage costs was 32.4% in the three months ended November 30, 2020, compared to 32.6% in the three months ended November 30, 2019.

Labor and related costs. Labor and related costs were \$4.4 million for the three months ended November 30, 2020 compared to \$5.6 million for the three months ended November 30, 2019, representing a decrease of approximately \$1.2 million, or 22.7%. Labor and related costs decreased as a result of reduced level of operating capacities of our restaurants due to local government restrictions in response to the COVID-19 pandemic during the three months ended November 30, 2020, partially offset by additional labor costs incurred from the opening of five new restaurants subsequent to November 30, 2019. As a percentage of sales, labor and related costs increased to 46.3% in the three months ended November 30, 2020, compared to 32.3% in the three months ended November 30, 2019. The increase in labor and related costs as a percentage of sales was primarily due to minimum staffing requirements to operate the restaurants, particularly at reduced operating capacities.

Occupancy and related expenses. Occupancy and related expenses were \$1.7 million for the three months ended November 30, 2020 compared to \$1.4 million for the three months ended November 30, 2019, representing an increase of approximately \$0.3 million, or 17.4%. The increase was primarily a result of additional lease expense incurred with respect to the opening of five new restaurants subsequent to November 30, 2019. As a percentage of sales, occupancy and other operating expenses increased to 18.0% in the three months ended November 30, 2020, compared to 8.3% in the three months ended November 30, 2019. The increase as a percentage of sales was primarily driven by the decrease in sales due to the reduced level of operating capacities of our restaurants due to local government restrictions in response to the COVID-19 pandemic during the three months ended November 30, 2020.

Depreciation and amortization expenses. Depreciation and amortization expenses incurred as part of restaurant operating costs were \$0.9 million for the three months ended November 30, 2020 compared to \$0.7 million for the three months ended November 30, 2019, representing an increase of approximately \$0.2 million, or 39.8%. The increase was primarily due to depreciation of property and equipment related to the opening of five new restaurants subsequent to November 30, 2019. As a percentage of sales, depreciation and amortization expenses at the restaurant-level increased to 9.8% in the three months ended November 30, 2020 as compared to 3.8% in the three months ended November 30, 2019. The increase as a percentage of sales is primarily due to the decrease in sales due to the reduced level of operating capacities of our restaurants due to local government restrictions in response to the COVID-19 pandemic during the three months ended November 30, 2020. Depreciation and amortization expenses incurred at the corporate-level were immaterial for the three months ended November 30, 2020 and November 30, 2019, and as a percentage of sales were 0.8% and 0.1%, respectively.

Other costs. Other costs were \$2.1 million for the three months ended November 30, 2020 compared to \$2.0 million for the three months ended November 30, 2019, representing an increase of approximately \$32 thousand, or 1.6%. The increase was primarily due to the opening of five new restaurants subsequent to November 30, 2019. As a percentage of sales, other costs increased to 22.1% in the three months ended November 30, 2020 from 11.7% in the three months ended November 30, 2019 primarily due to costs that are not directly variable with the decrease in sales such as maintenance services, utilities and business insurance, as well as smallware for three new restaurants that opened within the quarter and supplies related to incremental takeout orders.

General and administrative expenses. General and administrative expenses were \$3.5 million for the three months ended November 30, 2020 compared to \$3.3 million for the three months ended November 30, 2019, representing an increase of approximately \$0.2 million, or 5.9%. This increase in general and administrative expenses was primarily due to \$0.4 million in executive transition costs, \$0.2 million in compensation-related expenses and \$0.1 million of various other costs, partially offset by \$0.5 million in reduced legal and audit fees. As a percentage of sales, general and administrative expenses increased to 37.4% in the three months ended November 30, 2020 from 19.1% in three months ended November 30, 2019, primarily due to the decrease in sales from the reduced level of operating capacities of our restaurants due to local government restrictions in response to the COVID-19 pandemic during the three months ended November 30, 2020.

Interest expense. Interest expense was insignificant in both the three months ended November 30, 2020 and November 30, 2019.

Interest income. Interest income was \$4 thousand for the three months ended November 30, 2020 compared to \$197 thousand for the three months ended November 30, 2019, due to a decrease in our cash equivalents balance.

Income tax expense. Income tax expense was \$29 thousand for the three months ended November 30, 2020 compared to a tax benefit of \$4 thousand for the three months ended November 30, 2019. 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 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 (loss) before interest, income taxes and depreciation and amortization expenses. 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 certain executive transition costs, 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 November 30, 2020 and November 30, 2019:

	Three Months Ended November 30,	
	2020	2019
	(amounts in thousands)	
Net loss	\$ (6,350)	\$ (1,224)
Interest expense (income), net	30	(163)
Income tax expense (benefit)	29	(4)
Depreciation and amortization expenses	1,002	685
EBITDA	(5,289)	(706)
Stock-based compensation expense ^(a)	266	121
Non-cash lease expense ^(b)	576	243
Executive transition costs ^(c)	390	—
Adjusted EBITDA	(4,057)	(342)
Adjusted EBITDA margin	(43.1)%	(2.0)%

- (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 on Form 10-Q.
- (b) Non-cash lease expense includes lease expense from the opening date of our restaurants that did not require cash outlay in the respective periods.
- (c) Executive transition costs include severance and search fees associated with the transition of our Chief Financial Officer.

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

Restaurant-level Operating Profit is defined as operating income (loss) plus depreciation and amortization expenses; 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 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. 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 to increase in proportion to the number of new restaurants we open and our comparable restaurant sales growth, if any.

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 loss to Restaurant-level Operating Profit and Restaurant-level Operating Profit margin for the three months ended November 30, 2020 and November 30, 2019:

	Three Months Ended November 30,	
	2020	2019
	(amounts in thousands)	
Operating loss	\$ (6,291)	\$ (1,391)
Depreciation and amortization expenses	1,002	685
Stock-based compensation expense(a)	266	121
Pre-opening costs(b)	235	145
Non-cash lease expense(c)	576	243
General and administrative expenses	3,521	3,326
Corporate-level stock-based compensation included in General and administrative expenses	(243)	(105)
Restaurant-level operating (loss) profit	(934)	3,024
Operating loss margin	(66.8)%	(8.0)%
Restaurant-level operating (loss) profit margin	(9.9)%	17.3%

- (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 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, 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 the three months ended November 30, 2020.

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

- government restrictions on indoor dining capacity due to COVID-19;
- 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 for the three months ended November 30, 2020 and November 30, 2019:

	Three Months Ended November 30,	
	2020	2019
Comparable restaurant sales performance (%)	(50.8)%	7.9%
Comparable restaurant base	20	14

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 months ended November 30, 2020 and November 30, 2019:

	Three Months Ended November 30,	
	2020	2019
Restaurant activity:		
Beginning of period	25	23
Openings	3	—
End of period	28	23

Subsequent to November 30, 2020 and as of the filing date of this Quarterly Report on Form 10-Q, we opened one new restaurant in Aventura, Florida.

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 had been cash flows from operations and the cash proceeds from our initial public offering in fiscal 2019. 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.”

In November 2020, we borrowed \$3.0 million under the Revolving Credit Agreement. Subsequent to November 30, 2020 and as of the filing date of this Quarterly Report on Form 10-Q, we borrowed an additional \$6.0 million and have \$26 million of availability remaining under the Revolving Credit Agreement.

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 at least 30 days to pay 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, cash on hand and proceeds from our Revolving Credit Agreement. 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,	
	2020	2019
Statement of Cash Flow Data:	(amounts in thousands)	
Net cash used in operating activities	\$ (2,731)	\$ (1,538)
Net cash used in investing activities	(6,619)	(3,244)
Net cash provided by (used in) financing activities	2,836	(252)

Cash Flows Used in Operating Activities

Net cash used in operating activities during the three months ended November 30, 2020 was \$2.7 million, which results from net loss of \$6.4 million, non-cash charges of \$1.0 million for depreciation and amortization, \$0.3 million for stock-based compensation, \$0.7 million in noncash lease expense, and net cash inflows of approximately \$1.6 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 \$0.8 million for accounts payable, \$0.5 million for accrued expenses and other current liabilities, \$0.1 million for sales tax payable, and \$0.8 million for salary and wages payable, partially offset by increases in \$0.1 million for prepaid expenses and other current assets, \$0.1 million for inventories and \$0.2 million for amounts due from affiliate. The increases in accounts payable and accrued expenses and other current liabilities were primarily driven by timing of payment for certain liabilities.

Net cash used in operating activities during the three months ended November 30, 2019 was \$1.5 million, which resulted from net loss of \$1.2 million, non-cash charges of \$0.7 million for depreciation and amortization, \$0.1 million for stock-based compensation, \$0.6 million in noncash lease expense, and net cash outflows of approximately \$1.7 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 \$1.0 million for accounts payable and \$0.6 million for accrued expenses and other current liabilities, driven by timing of payment for certain liabilities.

Cash Flows Used in Investing Activities

Net cash used in investing activities during the three months ended November 30, 2020 was \$6.6 million, primarily due to purchases of property and equipment. The purchases of property and equipment in the three months ended November 30, 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 three months ended November 30, 2019 was \$3.2 million, primarily due to purchases of property and equipment. The increase in purchases of property and equipment in the three months ended November 30, 2019 is primarily related to capital expenditures for current and future restaurant openings, 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, 2020 was \$2.8 million and is primarily due to \$3.0 million in loan proceeds from our Revolving Credit Agreement.

Net cash used in financing activities during the three months ended November 30, 2019 was \$0.3 million primarily due to repayment of principal on financing leases.

Contractual Obligations

As of November 30, 2020, we had \$1.5 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 on Form 10-Q.

Off-Balance Sheet Arrangements

As of November 30, 2020, we did not have any material off-balance sheet arrangements.

Recent Accounting Pronouncements

For a description of recently issued 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.

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 31, 2020. 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, 2020 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.

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.

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, 2020. There have been no material changes to our Risk Factors as therein previously reported.

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.

<u>Exhibit Number</u>	<u>Description</u>
10.1	<u>Employment Agreement, dated November 30, 2020, between Kura Sushi USA, Inc. and Steven H. Benrubi (incorporated by reference to our current report on Form 8-K filed with the SEC on November 30, 2020 as Exhibit 10.1)</u>
10.2	<u>Form of Restricted Stock Award Notice and Award Agreement (incorporated by reference to our current report on Form 8-K filed with the SEC on November 30, 2020 as Exhibit 10.2)</u>
10.2	<u>Confidential Separation Agreement and General Release of Claims, dated December 1, 2020, between Kura Sushi USA, Inc. and Koji Shinohara (incorporated by reference to our current report on Form 8-K filed with the SEC on December 3, 2020 as Exhibit 10.1)</u>
31.1*	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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: January 11, 2021

By: _____ /s/ Steven Benrubi
Steven Benrubi
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

**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 11, 2021

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

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

I, Steven Benrubi, 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 11, 2021

/s/ Steven Benrubi

Steven Benrubi

Chief Financial Officer, Treasurer and Secretary

**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, 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: January 11, 2021

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

**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, 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: January 11, 2021

By: _____ /s/ Steven Benrubi
Steven Benrubi
Chief Financial Officer, Treasurer and Secretary