UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2022

OR

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

For the transition period from __________ to __________

Commission File Number: 001-39012

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

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

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

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

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

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

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

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

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

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

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

As of July 5, 2022, the registrant had 8,740,465 shares of Class A common stock, $0.001 par value per share, outstanding and 1,000,050 shares of Class B common stock, $0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	May 31, 2022	August 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 35,968	$ 40,430
Accounts and other receivables	2,213	2,019
Inventories	884	733
Due from affiliate	—	329
Prepaid expenses and other current assets	6,108	13,957
Total current assets	45,173	57,468
Non-current assets:		
Property and equipment – net	68,677	53,885
Operating lease right-of-use assets	78,569	64,158
Deposits and other assets	3,106	2,158
Total assets	$ 195,525	$ 177,669
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,115	$ 4,920
Accrued expenses and other current liabilities	3,287	2,820
Salaries and wages payable	5,947	4,612
Finance leases – current	697	932
Operating lease liabilities – current	7,062	5,650
Due to affiliate	84	244
Sales tax payable	1,173	869
Total current liabilities	24,365	20,047
Non-current liabilities:		
Finance leases – non-current	49	546
Operating lease liabilities – non-current	80,679	65,834
Other liabilities	472	398
Total liabilities	105,565	86,825
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, 8,734 and 8,700 shares issued and outstanding as of May 31, 2022 and August 31, 2021, respectively	9	9
Class B common stock, $0.001 par value; 10,000 shares authorized, 1,000 shares issued and outstanding as of May 31, 2022 and August 31, 2021	1	1
Additional paid-in capital	117,549	115,756
Accumulated deficit	(27,599)	(24,922)
Total stockholders' equity	89,960	90,844
Total liabilities and stockholders' equity	$ 195,525	$ 177,669

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

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	**2021**	**2022**	**2021**
Sales	$ 37,969	$ 18,471	$ 99,091	$ 36,967
Restaurant operating costs:				
Food and beverage costs	11,282	5,850	29,615	12,078
Labor and related costs	11,788	1,649	31,840	8,070
Occupancy and related expenses	2,693	1,885	7,195	5,202
Depreciation and amortization expenses	1,376	1,086	3,814	3,015
Other costs	4,372	2,713	12,326	6,843
Total restaurant operating costs	31,511	13,183	84,790	35,208
General and administrative expenses	5,900	4,292	16,714	10,687
Depreciation and amortization expenses	85	130	256	299
Total operating expenses	37,496	17,605	101,760	46,194
Operating income (loss)	473	866	(2,669)	(9,227)
Other expense (income):				
Interest expense	23	67	70	154
Interest income	(25)	(1)	(75)	(8)
Income (loss) before income taxes	475	800	(2,664)	(9,373)
Income tax (benefit) expense	(2)	30	13	88
Net income (loss)	$ 477	$ 770	$ (2,677)	$ (9,461)
Net income (loss) per Class A and Class B shares				
Basic	$ 0.05	$ 0.09	$ (0.28)	$ (1.13)
Diluted	$ 0.05	$ 0.09	$ (0.28)	$ (1.13)
Weighted average Class A and Class B shares outstanding				
Basic	9,722	8,383	9,714	8,381
Diluted	10,069	8,663	9,714	8,381

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, 2021	8,700	$ 9	1,000	$ 1	$ 115,756	$ (24,922)	$ 90,844
Stock-based compensation	—	—	—	—	443	—	443
Employee stock plan	13	—	—	—	19	—	19
Net loss	—	—	—	—	—	(1,275)	(1,275)
Balances as of November 30, 2021	8,713	9	1,000	1	116,218	(26,197)	90,031
Stock-based compensation	—	—	—	—	596	—	596
Employee stock plan	5	—	—	—	29	—	29
Taxes paid on vested restricted stock awards	(2)	—	—	—	(154)	—	(154)
Net loss	—	—	—	—	—	(1,879)	(1,879)
Balances as of February 28, 2022	8,716	9	1,000	1	116,689	(28,076)	88,623
Stock-based compensation	—	—	—	—	732	—	732
Employee stock plan	18	—	—	—	128	—	128
Net income	—	—	—	—	—	477	477
Balances as of May 31, 2022	8,734	$ 9	1,000	$ 1	$ 117,549	$ (27,599)	$ 89,960

	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
Exercise of stock options	22	—	—	—	94	—	94
Net loss	—	—	—	—	—	(6,350)	(6,350)
Balances as of November 30, 2020	7,364	7	1,000	1	60,692	(20,977)	39,723
Stock-based compensation	—	—	—	—	309	—	309
Exercise of stock options	49	—	—	—	272	—	272
Net loss	—	—	—	—	—	(3,881)	(3,881)
Balances as of February 28, 2021	7,413	7	1,000	1	61,273	(24,858)	36,423
Stock-based compensation	—	—	—	—	391	—	391
Exercise of stock options	11	—	—	—	73	—	73
Net income	—	—	—	—	—	770	770
Balances as of May 31, 2021	7,424	$ 7	1,000	$ 1	$ 61,737	$ (24,088)	$ 37,657

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

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

	Nine Months Ended May 31,	
	2022	2021
Cash flows from operating activities		
Net loss	$ (2,677)	$ (9,461)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	4,070	3,314
Stock-based compensation	1,771	966
Loss on disposal of property and equipment	—	91
Non-cash lease expense	2,294	1,975
Changes in operating assets and liabilities:		
Accounts and other receivables	(301)	(1,227)
Inventories	(151)	(100)
Due from affiliate	329	10
Prepaid expenses and other current assets	7,849	(8,963)
Deposits and other assets	(124)	(34)
Accounts payable	1,439	71
Accrued expenses and other current liabilities	762	1,129
Salaries and wages payable	1,335	2,969
Operating lease liabilities	93	(1,011)
Due to affiliate	6	76
Sales tax payable	304	498
Net cash provided by (used in) operating activities	16,999	(9,697)
Cash flows from investing activities		
Payments for property and equipment	(19,457)	(11,412)
Payments for initial direct costs	(435)	—
Payments for purchases of liquor licenses	(825)	(111)
Net cash used in investing activities	(20,717)	(11,523)
Cash flows from financing activities		
Proceeds from loan from affiliate	—	17,000
Repayment of principal on finance leases	(766)	(777)
Taxes paid on vested restricted stock awards	(154)	—
Proceeds from exercise of stock options	176	439
Net cash (used in) provided by financing activities	(744)	16,662
Decrease in cash and cash equivalents	(4,462)	(4,558)
Cash and cash equivalents, beginning of period	40,430	9,259
Cash and cash equivalents, end of period	$ 35,968	$ 4,701
Supplemental disclosures of cash flow information		
Cash paid for income taxes	$ 144	$ —
Noncash investing activities		
Acquisition of finance leases	$ 34	$ —
Amounts unpaid for purchases of property and equipment	$ 863	$ 641

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

Note 1. Organization and Basis of Presentation

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

Effects of COVID-19

The negative effects of the COVID-19 pandemic on the Company’s business have been significant. In March 2020, the World Health Organization declared the novel strain of coronavirus COVID-19 a global pandemic. This contagious virus continues to spread, including acceleration of the spread of certain variants of COVID-19 in the areas in which the Company operates. This has adversely affected workforces, customers, economies, supply chains 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 or limited indoor dining capacities during the Company’s previous two fiscal years. COVID-19 and the government measures taken to control it have caused a significant disruption to the Company’s business operation. Since the end of the Company’s fiscal year 2021, it has been able to operate all of its restaurants with no government restrictions on indoor dining capacity. As of the filing date of this Quarterly Report on Form 10-Q, all of the Company’s restaurants continued to operate with no government restrictions on indoor dining capacity.

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 maintained cleaning and sanitizing protocols for 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.

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) signed into law on March 27, 2020, and the subsequent extension of the CARES Act, the Company was eligible for refundable employee retention credits subject to certain criteria through the fiscal year ended August 31, 2021. The Company recognized $6.3 million and $8.9 million of employee retention credits during the three and nine months ended May 31, 2021, respectively. For the three months ended May 31, 2021, $5.8 million was included in labor and related costs and $0.5 million was included in general and administrative expenses in the statements of operations, and for the nine months ended May 31, 2021, $8.0 million was included in labor and related costs and $0.9 million was included in general and administrative expenses in the statements of operations. As of August 31, 2021, the Company had recognized and filed for refunds in the amount of $12.1 million of employee retention credits. During the nine months ended May 31, 2022 the Company received $8.0 million in refunds, and through the date of this Quarterly Report on Form 10-Q, the Company has received $12.1 million in refunds.

Consistent with the Company’s long-term growth strategy, the Company expects to continue to open new restaurants in locations where it believes such 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. It is possible that renewed outbreaks, increases in cases and/or new variants of the virus, either as part of a national trend or on a more localized basis, could result in additional COVID-19 related restrictions, including capacity restrictions, or otherwise limit the Company’s dine-in services, or negatively affect consumer demand.

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, 2021.

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, 2021. In the opinion of management, all adjustments necessary to fairly state the Condensed Financial Statements have been made. All such adjustments are of a normal, recurring nature. The results of operations for interim periods are not necessarily indicative of results to be expected for the fiscal year ending August 31, 2022 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 2022" and "fiscal year 2021" refer to the Company's fiscal years ending August 31, 2022 and ended August 31, 2021, respectively.

Use of Estimates

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

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

Comprehensive Income (Loss)

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

Recently Issued Accounting Pronouncements

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-10, "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance," which provides guidance on disclosures for transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. ASU 2021-10 is effective for the Company beginning in fiscal year 2023. The Company is currently in the process of evaluating the effects of this pronouncement on its financial statements.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The Company adopted this update effective September 1, 2021. The adoption of this update did not impact the consolidated financial statements.

Note 2. Balance Sheet Components

Accounts and Other Receivables

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Lease receivables	$ 1,324	$ 1,431
Credit card and other receivables	889	588
Total accounts and other receivables	$ 2,213	$ 2,019

Prepaid Expenses and Other Current Assets

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Employee retention credit	$ 4,056	$ 12,007
Prepaid expenses	1,772	1,732
Other current assets	280	218
Total prepaid expenses and other current assets	$ 6,108	$ 13,957

Property and Equipment - net

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Leasehold improvements	$ 52,054	$ 43,181
Lease assets	6,166	6,128
Furniture and fixtures	18,841	13,324
Computer equipment	1,177	905
Vehicles	126	110
Software	863	773
Construction in progress	7,961	3,907
Property and equipment – gross	87,188	68,328
Less: accumulated depreciation and amortization	(18,511)	(14,443)
Total property and equipment – net	$ 68,677	$ 53,885

Depreciation and amortization expense for property and equipment was $1.5 million and $1.2 million for the three months ended May 31, 2022 and May 31, 2021, respectively, and was $4.1 million and $3.3 million for the nine months ended May 31, 2022 and May 31, 2021, respectively.

Note 3. Leases

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

Lease related costs recognized in the statements of operations are as follows:

		Three Months Ended May 31,		Nine Months Ended May 31,	
		2022	2021	2022	2021
		(amounts in thousands)			
Finance lease cost	**Classification**				
Amortization of right-of-use assets	Depreciation and amortization expenses	$ 145	$ 157	$ 424	$ 465
Interest on lease liabilities	Interest expense	11	20	35	69
Total finance lease cost		$ 156	$ 177	$ 459	$ 534

		Three Months Ended May 31,		Nine Months Ended May 31,	
		2022	2021	2022	2021
		(amounts in thousands)			
Operating lease cost	**Classification**				
Operating lease cost	Occupancy and related expenses, other costs and general and administrative expenses	$ 2,088	$ 1,571	$ 5,835	$ 4,687
Variable lease cost	Occupancy and related expenses, and general and administrative expenses	556	401	1,445	898
Total operating lease cost		$ 2,644	$ 1,972	$ 7,280	$ 5,585

Supplemental balance sheet information related to leases is as follows:

Operating Leases

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Right-of-use assets	$ 78,569	$ 64,158
Lease liabilities – current	$ 7,062	$ 5,650
Lease liabilities – non-current	80,679	65,834
Total lease liabilities	$ 87,741	$ 71,484

Finance Lease Assets – net

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Property and equipment	$ 6,166	$ 6,128
Accumulated depreciation	(3,203)	(2,778)
Total property and equipment – net	$ 2,963	$ 3,350

Finance Leases Liabilities

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Finance lease – current	$ 697	$ 932
Finance lease – non-current	49	546
Total finance lease liabilities	$ 746	$ 1,478

	Nine months ended May 31,	
	2022	2021
Weighted Average Remaining Lease Term (Years)		
Operating leases	16.3	16.0
Finance leases	1.0	1.7
Weighted Average Discount Rate		
Operating leases	6.4%	6.6%
Finance leases	4.7%	4.5%

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

	Nine Months Ended May 31,	
	2022	2021
	(amounts in thousands)	
Operating cash flows paid for operating lease liabilities	$ 4,781	$ 3,234
Operating right-of-use assets obtained in exchange for new operating lease liabilities	$ 16,622	$ 2,952

As of May 31, 2022, the Company had additional operating lease liabilities of $31.2 million related to restaurants for which the Company has not yet taken possession. These operating leases are expected to commence in fiscal year 2023, with lease terms of 20 years. Subsequent to May 31, 2022, the Company entered into additional operating leases related to restaurants for which the Company has not yet taken possession. The lease liabilities associated with these leases are $6.8 million. These operating leases are expected to commence in fiscal year 2023, with lease terms of 20 years.

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

	Operating Leases	Finance Leases
	(amounts in thousands)	
Remainder of 2022	$ 902	$ 234
2023	6,263	503
2024	7,995	36
2025	8,314	7
2026	8,234	—
Thereafter	110,274	—
Total lease payments	141,982	780
Less: imputed interest	(54,241)	(34)
Present value of lease liabilities	$ 87,741	$ 746

Note 4. Related Party Transactions

Kura Sushi, Inc. ("Kura Japan") is the majority shareholder of the Company, and is incorporated and headquartered in Japan. In August 2019, the Company entered into a Shared Services Agreement with Kura Japan, pursuant to which Kura Japan provides the Company with certain strategic, operational and other support services, including assigning certain employees to work for the Company as expatriates to provide support to the Company's operations, sending its employees to the Company on a short-term basis to provide support for the opening of new restaurants or renovation of existing restaurants, and providing the Company with certain supplies, parts and equipment for use in the Company's restaurants. In addition, the Company has agreed to continue to provide Kura Japan with certain translational support services and market research. In exchange for such services, supplies, parts and equipment, the parties pay fees to each other as set forth under the Shared Services Agreement. A right of setoff is not required; however, from time to time, either party will net settle transactions as needed. Purchases of administrative supplies, expatriate salaries and travel and other administrative expenses payable to Kura Japan are included in general and administrative expenses in the accompanying statements of operations. 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, as amended, to provide the Company a revolving credit line of $45 million. For additional information, see "Note 6. Debt."

Balances with Kura Japan are as follows:

	May 31, 2022	August 31, 2021
	(amounts in thousands)	
Due from affiliate	$ —	$ 329
Due to affiliate	$ 84	$ 244

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
	(amounts in thousands)			
Related party transactions:				
Purchases of administrative supplies	$ —	$ 4	$ —	$ 76
Expatriate salaries expense	33	30	116	92
Royalty payments	190	93	496	185
Travel and other administrative expenses	5	—	24	17
Purchases of equipment	624	29	1,127	430
Interest expense	—	47	—	74
Total related party transactions	$ 852	$ 203	$ 1,763	$ 874

Reimbursements by Kura Japan to the Company were none and $2 thousand for the three months ended May 31, 2022 and May 31, 2021, respectively, and were $28 thousand and $27 thousand for the nine months ended May 31, 2022 and May 31, 2021, respectively. The reimbursements were for travel and other administrative expenses.

Note 5. Stock-based Compensation

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

	Options Outstanding	
	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share
Outstanding — August 31, 2021	625,378	$ 17.13
Options granted	202,220	$ 50.20
Options exercised	(27,598)	$ 6.78
Options canceled/forfeited	(38,410)	$ 38.96
Outstanding — May 31, 2022	761,590	$ 25.19

During the nine months ended May 31, 2022, nine thousand restricted stock awards were issued under the Stock Incentive Plan, in addition to the option grants stated above, for which the Company incurred stock-based compensation of $17 thousand and $90 thousand for the three and nine months ended May 31, 2022, respectively.

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
	(amounts in thousands)			
Restaurant-level stock-based compensation included in other costs	$ 88	$ 34	$ 195	$ 83
Corporate-level stock-based compensation included in general and administrative expenses	644	357	1,576	883
Total stock-based compensation	$ 732	$ 391	$ 1,771	$ 966

Note 6. Debt

On April 10, 2020, the Company and Kura Japan entered into a Revolving Credit Agreement, as amended, establishing a $45 million revolving credit line for the Company. The maturity date for each advance is 60 months from the date of disbursement and the last day of the period of availability for advances is April 10, 2025. The Revolving Credit Note under the Revolving Credit Agreement has an interest rate for advances fixed at 130% of the Annual Compounding Long-Term Applicable Federal Rate ("AFR") on the date such advance is made. There are no financial covenants under the Revolving Credit Agreement with which the Company must comply.

As of May 31, 2022, the Company had no outstanding balance and $45.0 million of availability remaining under the Revolving Credit Agreement. During the three and nine months ended May 31, 2021, the Company made no borrowings and made $17.0 million in borrowings, respectively. As of May 31, 2021, the Company had outstanding borrowings of $14.0 million at a fixed interest rate of 1.1% and $3.0 million at a fixed interest rate of 2.8% under the Revolving Credit Agreement. Interest expense for the three and nine months ended May 31, 2021 was immaterial. For additional information, see "Note 4. Related Party Transactions."

Note 7. Income (Loss) Per Share

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

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

	Three Months Ended May 31,				Nine Months Ended May 31,			
	2022		2021		2022		2021	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
	(amounts in thousands, except per share data)							
Net income (loss) attributable to common stockholders	$ 428	$ 49	$ 678	$ 92	$ (2,401)	$ (276)	$ (8,332)	$ (1,129)
Weighted average common shares outstanding – basic	8,722	1,000	7,383	1,000	8,714	1,000	7,381	1,000
Dilutive effect of stock-based awards	347	—	280	—	—	—	—	—
Weighted average common shares outstanding – diluted	9,069	1,000	7,663	1,000	8,714	1,000	7,381	1,000
Net income (loss) per share attributable to common stockholders – basic	$ 0.05	$ 0.05	$ 0.09	$ 0.09	$ (0.28)	$ (0.28)	$ (1.13)	$ (1.13)
Net income (loss) per share attributable to common stockholders – diluted	$ 0.05	$ 0.05	$ 0.09	$ 0.09	$ (0.28)	$ (0.28)	$ (1.13)	$ (1.13)

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

For the three months ended May 31, 2022 and May 31, 2021, there were 250 thousand and 87 thousand shares of common stock subject to outstanding employee stock options that were excluded from the calculation of diluted income per share because their inclusion would have been anti-dilutive. For the nine months ended May 31, 2022 and May 31, 2021, there were 762 thousand and 586 thousand shares of common stock subject to outstanding employee stock options 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. In May 2021, a joint stipulation was filed requesting a delay in the class certification hearing date to March 3, 2022, and a mediation was scheduled for September 24, 2021. During the mediation, a settlement was agreed upon in the amount of $1.75 million. The Company recorded an accrued liability of $1.78 million, including an estimated $30 thousand in employer payroll taxes, related to this settlement within general and administrative expenses in the statements of operations during the fiscal year ended August 31, 2021. A hearing to obtain the Court's preliminary approval of the settlement occurred on May 9, 2022 and will continue on July 8, 2022.

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

Note 9. Income Taxes

The Company recorded an income tax benefit of $2 thousand and an income tax expense of $30 thousand for the three months ended May 31, 2022 and May 31, 2021, respectively, and income tax expense of $13 thousand and $88 thousand for the nine months ended May 31, 2022 and May 31, 2021, respectively. The Company's effective tax rates for the three and nine months ended May 31, 2022 substantially differed from the federal statutory tax rate of 21% primarily due to a valuation allowance for the Company's deferred tax assets.

The Company continually monitors and performs an assessment of the realizability of its deferred tax assets, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets using a "more likely than not" standard. In making such assessment, more weight was given to evidence that could be objectively verified, including recent cumulative losses. Based on the Company's review of this evidence, management determined that a full valuation allowance against all of the Company's net deferred tax assets at May 31, 2022 was appropriate.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited financial statements and the related notes included in this Quarterly Report on Form 10-Q and with the audited financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2021 (the "Annual Report").

In addition to historical information, the following discussion and analysis contains forward-looking statements, such as statements about our plans, objectives, expectations, and intentions, which are based on current expectations and that involve risks, uncertainties and assumptions as set forth and described in the "Special Note Regarding Forward-Looking Statements" and "Risk Factors" sections of the Annual Report. You should review those sections in our Annual Report for a discussion of important factors, including the continuing development of our business and other factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this Quarterly Report on Form 10-Q.

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

Overview

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

Business Trends; Effects of COVID-19 on Our Business

The negative effects of the COVID-19 pandemic on our business have been significant. In March 2020, the World Health Organization declared the novel strain of coronavirus COVID-19 a global pandemic. This contagious virus continues to spread, including the acceleration of the spread of certain variants of COVID-19 in the areas in which we operate. This has adversely affected workforces, customers, economies, supply chains 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 or limited indoor dining capacities during our previous two fiscal years. COVID-19 and the government measures taken to control it have caused a significant disruption to our business operation. Since the end of our fiscal year 2021, we have been able to operate all of our restaurants with no government restrictions on indoor dining capacity. As of the filing date of this Quarterly Report on Form 10-Q, all of our restaurants continued to operate with no government restrictions on indoor dining capacity.

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 maintained cleaning and sanitizing protocols for our restaurants and have implemented additional training and operational manuals for our restaurant employees, as well as increased handwashing procedures. We also provide each restaurant employee with face masks and gloves, and require each employee to pass a health screening process, which includes a temperature check, before the start of each shift.

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020, and the subsequent extension of the CARES Act, we were eligible for refundable employee retention credits subject to certain criteria through the fiscal year ended August 31, 2021. We recognized \$6.3 million and \$8.9 million of employee retention credits during the three and nine months ended May 31, 2021, respectively. For the three months ended May 31, 2021, \$5.8 million was included in labor and related costs and \$0.5 million was included in general and administrative expenses in the statements of operations, and for the nine months ended May 31, 2021, \$8.0 million was included in labor and related costs and \$0.9 million was included in general and administrative expenses in the statement of operations. As of August 31, 2021, we had recognized and filed for refunds of the amount in the amount of \$12.1 million of employee retention credits. During the nine months ended May 31, 2022 we received \$8.0 million in refunds, and through the date of this Quarterly Report on Form 10-Q, we received \$12.1 million in refunds.

Consistent with our long-term growth strategy, we expect to continue to open new restaurants in locations where we believe such 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. It is possible that renewed outbreaks, increases in cases and/or new variants of the virus, either as part of a national trend or on a more localized basis, could result in additional COVID-19 related restrictions including capacity restrictions, or otherwise limit our dine-in services, or negatively affect consumer demand.

Key Financial Definitions

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

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

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

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

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

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

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

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

Interest income. Interest income includes income earned on our money market funds.

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

Results of Operations

The following tables present selected comparative results of operations for the three and nine months ended May 31, 2022 and May 31, 2021. Our financial results for these periods are not necessarily indicative of the financial results that we will achieve in future periods. Certain totals for the tables below may not sum to 100% due to rounding.

	Three Months Ended May 31,			
	2022	2021	$ Change	% Change
	(dollar amounts in thousands)			
Sales	$ 37,969	$ 18,471	$ 19,498	105.6 %
Restaurant operating costs				
Food and beverage costs	11,282	5,850	5,432	92.9
Labor and related costs	11,788	1,649	10,139	614.9
Occupancy and related expenses	2,693	1,885	808	42.9
Depreciation and amortization expenses	1,376	1,086	290	26.7
Other costs	4,372	2,713	1,659	61.2
Total restaurant operating costs	31,511	13,183	18,328	139.0
General and administrative expenses	5,900	4,292	1,608	37.5
Depreciation and amortization expenses	85	130	(45)	(34.6)
Total operating expenses	37,496	17,605	19,891	113.0
Operating income	473	866	(393)	(45.4)
Other expense (income):				
Interest expense	23	67	(44)	(65.7)
Interest income	(25)	(1)	(24)	2,400.0
Income before income taxes	475	800	(325)	(40.6)
Income tax (benefit) expense	(2)	30	(32)	(106.7)
Net income	$ 477	$ 770	$ (293)	(38.1) %

	Nine Months Ended May 31,			
	2022	2021	$ Change	% Change
	(dollar amounts in thousands)			
Sales	$ 99,091	$ 36,967	$ 62,124	168.1 %
Restaurant operating costs				
Food and beverage costs	29,615	12,078	17,537	145.2
Labor and related costs	31,840	8,070	23,770	294.5
Occupancy and related expenses	7,195	5,202	1,993	38.3
Depreciation and amortization expenses	3,814	3,015	799	26.5
Other costs	12,326	6,843	5,483	80.1
Total restaurant operating costs	84,790	35,208	49,582	140.8
General and administrative expenses	16,714	10,687	6,027	56.4
Depreciation and amortization expenses	256	299	(43)	(14.4)
Total operating expenses	101,760	46,194	55,566	120.3
Operating loss	(2,669)	(9,227)	6,558	(71.1)
Other expense (income):				
Interest expense	70	154	(84)	(54.5)
Interest income	(75)	(8)	(67)	837.5
Loss before income taxes	(2,664)	(9,373)	6,709	(71.6)
Income tax expense	13	88	(75)	(85.2)
Net loss	$ (2,677)	$ (9,461)	$ 6,784	(71.7) %

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
	(as a percentage of sales)			
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Restaurant operating costs				
Food and beverage costs	29.7	31.7	29.9	32.7
Labor and related costs	31.0	8.9	32.1	21.8
Occupancy and related expenses	7.1	10.2	7.3	14.1
Depreciation and amortization expenses	3.6	5.9	3.8	8.2
Other costs	11.5	14.7	12.4	18.5
Total restaurant operating costs	83.0	71.4	85.5	95.3
General and administrative expenses	15.5	23.2	16.9	28.9
Depreciation and amortization expenses	0.2	0.7	0.3	0.8
Total operating expenses	98.7	95.3	102.7	125.0
Operating income (loss)	1.3	4.7	(2.7)	(25.0)
Other expense (income):				
Interest expense	0.1	0.4	0.1	0.4
Interest income	(0.1)	—	(0.1)	—
Income (loss) before income taxes	1.3	4.3	(2.7)	(25.4)
Income tax expense	—	0.2	—	0.2
Net income (loss)	1.3 %	4.1 %	(2.7) %	(25.6) %

Three Months Ended May 31, 2022 Compared to Three Months Ended May 31, 2021

Sales. Sales were $38.0 million for the three months ended May 31, 2022 compared to $18.5 million for the three months ended May 31, 2021, representing an increase of $19.5 million, or 105.6%. Comparable restaurant sales increased 65.3% for the three months ended May 31, 2022, as compared to the three months ended May 31, 2021. The increase in sales was primarily driven by all of our restaurants operating with no government restrictions on indoor dining capacity, as well as the sales resulting from six new restaurants opened subsequent to May 31, 2021, whereas the prior year sales were impacted by indoor dining capacity restrictions mandated by local government regulations in response to the COVID-19 pandemic.

Food and beverage costs. Food and beverage costs were $11.3 million for the three months ended May 31, 2022 compared to $5.9 million for the three months ended May 31, 2021, representing an increase of $5.4 million, or 92.9%. The increase in food and beverage costs was primarily driven by all of our restaurants operating with no government restrictions on indoor dining capacity, whereas the prior year was impacted by indoor dining capacity restrictions mandated by local government regulations in response to the COVID-19 pandemic, as well as costs associated with sales from six new restaurants opened subsequent to May 31, 2021. As a percentage of sales, food and beverage costs decreased to 29.7% in the three months ended May 31, 2022 as compared to 31.7% in the three months ended May 31, 2021, primarily due to an increase in menu prices, partially offset by food cost inflation, as well as higher inventory spoilage in the prior year.

Labor and related costs. Labor and related costs were $11.8 million for the three months ended May 31, 2022 compared to $1.6 million for the three months ended May 31, 2021, representing an increase of $10.2 million, or 614.9%. This increase in labor and related costs was primarily driven by $5.8 million in employee retention credits recognized under the CARES Act extension during the three months ended May 31, 2021, all of our restaurants operating with no government restrictions on indoor dining capacity as the prior year was impacted by indoor dining capacity restrictions mandated by local government regulations in response to the COVID-19 pandemic, as well as additional labor costs incurred from six new restaurants opened subsequent to May 31, 2021, partially offset by $0.7 million in retention and new hire bonuses during the three months ended May 31, 2021. As a percentage of sales, labor and related costs increased to 31.0% in the three months ended May 31, 2022 as compared to 8.9% in the three months ended May 31, 2021. The increase in cost as a percentage of sales was primarily driven by the employee retention credits recognized under the CARES Act extension during the three months ended May 31, 2021. Excluding the impact of the employee retention credit and retention and new hire bonuses, labor and related costs as a percentage of sales for the three months ended May 31, 2021 would have been 36.6%, primarily due to minimum staffing required to operate the restaurants at significantly reduced operating capacities in the prior year.

Occupancy and related expenses. Occupancy and related expenses were $2.7 million for the three months ended May 31, 2022 compared to $1.9 million for the three months ended May 31, 2021, representing an increase of $0.8 million, or 42.9%. The increase was primarily a result of additional lease expense related to the opening of six new restaurants subsequent to May 31, 2021, as well as incremental pre-opening lease expense. As a percentage of sales, occupancy and related expenses decreased to 7.1% in the three months ended May 31, 2022 as compared to 10.2% in the three months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales.

Depreciation and amortization expenses. Depreciation and amortization expenses incurred as part of restaurant operating costs were $1.4 million for the three months ended May 31, 2022 compared to $1.1 million for the three months ended May 31, 2021, representing an increase of $0.3 million, or 26.7%. The increase was primarily due to depreciation of property and equipment related to the six new restaurants opened subsequent to May 31, 2021. As a percentage of sales, depreciation and amortization expenses at the restaurant level decreased to 3.6% in the three months ended May 31, 2022 as compared to 5.9% in the three months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales. Depreciation and amortization expenses incurred at the corporate level were $0.1 million for the three and nine months ended May 31, 2022 and May 31, 2021, and as a percentage of sales were 0.2% and 0.7%, respectively.

Other costs. Other costs were $4.4 million for the three months ended May 31, 2022 compared to $2.7 million for the three months ended May 31, 2021, representing an increase of $1.7 million, or 61.2%. The increase was primarily driven by an increase in credit card fees, utilities and supplies due to higher sales, as well as costs related to six new restaurants opened subsequent to May 31, 2021. As a percentage of sales, other costs decreased to 11.5% in the three months ended May 31, 2022 as compared to 14.7% in the three months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales.

General and administrative expenses. General and administrative expenses were $5.9 million for the three months ended May 31, 2022 compared to $4.3 million for the three months ended May 31, 2021, representing an increase of $1.6 million, or 37.5%. This increase was primarily due to an increase of $1.7 million in compensation-related expenses due to an increase in headcount, a $0.2 million increase in travel expenses and a $0.2 million increase in other costs, as well as $0.5 million in employee retention credits recognized under the CARES Act extension in the three months ended May 31, 2021, offset by a $1.0 million litigation expense in the three months ended May 31, 2021. As a percentage of sales, general and administrative expenses decreased to 15.5% in the three months ended May 31, 2022 from 23.2% in the three months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales.

Interest expense. Interest expense was $23 thousand for the three months ended May 31, 2022 compared to $67 thousand for the three months ended May 31, 2021.

Interest income. Interest income was $25 thousand for the three months ended May 31, 2022 compared to $1 thousand for the three months ended May 31, 2021.

Income tax (benefit) expense. Income tax benefit was $2 thousand for the three months ended May 31, 2022 compared to income tax expense of $30 thousand for the three months ended May 31, 2021. For further discussion of our income taxes, see “Note 9. Income Taxes” in the Notes to Condensed Financial Statements.

Nine Months Ended May 31, 2022 Compared to Nine Months Ended May 31, 2021

Sales. Sales were $99.1 million for the nine months ended May 31, 2022 compared to $37.0 million for the nine months ended May 31, 2021, representing an increase of $62.1 million, or 168.1%. Comparable restaurant sales increased 118.7% for the nine months ended May 31, 2022, as compared to the nine months ended May 31, 2021. The increase in sales was primarily driven by all of our restaurants operating with no government restrictions on indoor dining capacity, as well as the sales resulting from six new restaurants opened subsequent to May 31, 2021, whereas the prior year sales were impacted by indoor dining capacity restrictions mandated by local government regulations in response to the COVID-19 pandemic.

Food and beverage costs. Food and beverage costs were $29.6 million for the nine months ended May 31, 2022 compared to $12.1 million for the nine months ended May 31, 2021, representing an increase of $17.5 million, or 145.2%. The increase in food and beverage costs was primarily driven by all of our restaurants operating with no government restrictions on indoor dining capacity, whereas the prior year was impacted by indoor dining capacity restrictions mandated by local government regulations in response to the COVID-19 pandemic, as well as costs associated with sales from six new restaurants opened subsequent to May 31, 2021. As a percentage of sales, food and beverage costs decreased to 29.9% in the nine months ended May 31, 2022 as compared to 32.7% in the nine months ended May 31, 2021, primarily due to an increase in menu prices, partially offset by food cost inflation, as well as higher inventory spoilage in the prior year.

Labor and related costs. Labor and related costs were $31.8 million for the nine months ended May 31, 2022 compared to $8.1 million for the nine months ended May 31, 2021, representing an increase of $23.7 million, or 294.5%. This increase in labor and related costs was primarily driven by $8.0 million in employee retention credits recognized under the CARES Act extension during the nine months ended May 31, 2021, all of our restaurants operating with no government restrictions on indoor dining capacity as the prior year was impacted by indoor dining capacity restrictions mandated by local government regulations in response to the COVID-19 pandemic, as well as additional labor costs incurred from six new restaurants opened subsequent to May 31, 2021, partially offset by $0.7 million in retention and new hire bonuses during the nine months ended May 31, 2021. As a percentage of sales, labor and related costs increased to 32.1% in the nine months ended May 31, 2022 as compared to 21.8% in the nine months ended May 31, 2021. The increase in cost as a percentage of sales was primarily driven by the employee retention credits recognized under the CARES Act extension during the nine months ended May 31, 2021. Excluding the impact of the employee retention credit and retention and new hire bonuses, the percentage of labor and related costs as a percentage of sales for the nine months ended May 31, 2021 would have been 41.6%. The decrease in cost as a percentage of sales was primarily driven by leverage benefits from the increase in sales.

Occupancy and related expenses. Occupancy and related expenses were $7.2 million for the nine months ended May 31, 2022 compared to $5.2 million for the nine months ended May 31, 2021, representing an increase of $2.0 million, or 38.3%. The increase was primarily a result of additional lease expense related to the opening of six new restaurants subsequent to May 31, 2021, as well as incremental pre-opening lease expense. As a percentage of sales, occupancy and related expenses decreased to 7.3% in the nine months ended May 31, 2022, compared to 14.1% in the nine months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales.

Depreciation and amortization expenses. Depreciation and amortization expenses incurred as part of restaurant operating costs were $3.8 million for the nine months ended May 31, 2022 compared to $3.0 million for the nine months ended May 31, 2021, representing an increase of $0.8 million, or 26.5%. The increase was primarily due to depreciation of property and equipment related to the six new restaurants opened subsequent to May 31, 2021. As a percentage of sales, depreciation and amortization expenses at the restaurant level decreased to 3.8% in the nine months ended May 31, 2022 as compared to 8.2% in the nine months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales. Depreciation and amortization expenses incurred at the corporate level were $0.3 million for the nine months ended May 31, 2022 and May 31, 2021, and as a percentage of sales were 0.3% and 0.8%, respectively.

Other costs. Other costs were $12.3 million for the nine months ended May 31, 2022 compared to $6.8 million for the nine months ended May 31, 2021, representing an increase of $5.5 million, or 80.1%. The increase was primarily driven by an increase in credit card fees, utilities and supplies due to higher sales, as well as costs related to six new restaurants opened subsequent to May 31, 2021. As a percentage of sales, other costs decreased to 12.4% in the nine months ended May 31, 2022 from 18.5% in the nine months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales.

General and administrative expenses. General and administrative expenses were $16.7 million for the nine months ended May 31, 2022 compared to $10.7 million for the nine months ended May 31, 2021, representing an increase of $6.0 million, or 56.4%. This increase was primarily due to an increase of $4.8 million in compensation-related expenses due to an increase in headcount, a $0.7 million increase in travel expenses, a $0.2 million increase in recruiting costs, a $0.2 million increase in legal and consulting fees and $0.2 increase in insurance costs, as well as $0.9 million in employee retention credits recognized under the CARES Act extension in the nine months ended May 31, 2021, offset by a $1.0 million litigation expense in the nine months ended May 31, 2021. As a percentage of sales, general and administrative expenses decreased to 16.9% in the nine months ended May 31, 2022 from 28.9% in the nine months ended May 31, 2021, primarily driven by leverage benefits from the increase in sales.

Interest expense. Interest expense was $70 thousand for the nine months ended May 31, 2022 compared to $154 thousand for the nine months ended May 31, 2021.

Interest income. Interest income was $75 thousand for the nine months ended May 31, 2022 compared to $8 thousand for the nine months ended May 31, 2021.

Income tax expense. Income tax expense was $13 thousand for the nine months ended May 31, 2022 compared to $88 thousand for the nine months ended May 31, 2021. 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, Average Unit Volumes (“AUVs”), comparable restaurant sales performance, and the number of restaurant openings.

Sales

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

EBITDA and Adjusted EBITDA

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

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

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

The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
	(amounts in thousands)			
Net income (loss)	$ 477	$ 770	$ (2,677)	$ (9,461)
Interest (income) expense, net	(2)	66	(5)	146
Income tax (benefit) expense	(2)	30	13	88
Depreciation and amortization expenses	1,461	1,216	4,070	3,314
EBITDA	1,934	2,082	1,401	(5,913)
Stock-based compensation expense[(a)]	732	391	1,771	966
Non-cash lease expense[(b)]	517	231	1,189	935
Executive transition costs[(c)]	—	—	—	390
Employee retention credit[(d)]	—	(6,296)	—	(8,931)
Litigation accrual[(e)]	—	1,000	—	1,000
Adjusted EBITDA	$ 3,183	$ (2,592)	$ 4,361	$ (11,553)
Adjusted EBITDA margin	8.4%	(14.0)%	4.4%	(31.3)%

(a) Stock-based compensation expense includes non-cash stock-based compensation, which is comprised of restaurant-level stock-based compensation included in other costs 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" in the notes to condensed financial statements included in this Quarterly Report on Form 10-Q.

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

(c) Executive transition costs include severance and search fees associated with the transition of our former Chief Financial Officer.

(d) Employee retention credit includes a refundable credit recognized under the provisions of the CARES Act extension.

(e) Litigation accrual consists of an expense related to a litigation claim. See "Note 8. Commitments and Contingencies" to the financial statements includes in this Quarterly Report on Form 10-Q.

Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) Margin

Restaurant-level Operating Profit (Loss) is defined as operating income (loss) plus depreciation and amortization; stock-based compensation expense; pre-opening costs and general and administrative expenses which are considered normal, recurring, cash operating expenses and are essential to support the development and operations of our restaurants; non-cash lease expense; and asset disposals, closure costs and restaurant impairments; less corporate-level stock-based compensation expense and employee retention credits recognized within general and administrative expenses. Restaurant-level Operating Profit (Loss) margin is defined as Restaurant-level Operating Profit (Loss) divided by sales. Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin are intended as supplemental measures of our performance and are neither required by, nor presented in accordance with, GAAP. We believe that Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and operating results, as these measures depict normal, recurring cash operating expenses essential to supporting the development and operations of our restaurants. However, these measures may not provide a complete understanding of the operating results of the Company as a whole and such measures should be reviewed in conjunction with our GAAP financial results. We expect Restaurant-level Operating Profit (Loss) to increase in proportion to the number of new restaurants we open and upon comparable restaurant sales growth, if any.

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

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

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

The following table reconciles operating income (loss) to Restaurant-level Operating Profit (Loss) and Restaurant-level Operating Profit (Loss) margin:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
	(amounts in thousands)			
Operating income (loss)	$ 473	$ 866	$ (2,669)	$ (9,227)
Depreciation and amortization expenses	1,461	1,216	4,070	3,314
Stock-based compensation expense[(a)]	732	391	1,771	966
Pre-opening costs[(b)]	104	271	420	832
Non-cash lease expense[(c)]	517	231	1,189	935
Employee retention credit[(d)]	—	(6,296)	—	(8,931)
General and administrative expenses	5,900	4,292	16,714	10,687
Corporate-level stock-based compensation and employee retention credit in general and administrative expenses	(644)	93	(1,576)	1
Restaurant-level operating profit (loss)	$ 8,543	$ 1,064	$ 19,919	$ (1,423)
Operating profit (loss) margin	1.2%	4.7%	(2.7)%	(25.0)%
Restaurant-level operating profit (loss) margin	22.5%	5.8%	20.1%	(3.8)%

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

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

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

(d) Employee retention credit includes a refundable credit recognized under the provisions of the CARES Act extension.

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 and nine months ended May 31, 2021.

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:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
Comparable restaurant sales performance (%)	65.3%	455.6%	118.7%	(20.5)%
Comparable restaurant base	25	23	25	21

Number of Restaurant Openings

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2022	2021	2022	2021
Restaurant activity:				
Beginning of period	36	30	32	25
Openings	1	1	5	6
End of period	37	31	37	31

Liquidity and Capital Resources

Our primary uses of cash are for operational expenditures and capital investments, including new restaurants, and costs incurred for restaurant remodels and restaurant fixtures. Historically, our main sources of liquidity have been cash flows from operations, cash proceeds from our initial public offering in fiscal 2019 and our secondary offering in fiscal 2021 and availability under our Revolving Credit Agreement. The ongoing impact of the COVID-19 pandemic remains highly uncertain and may have a material adverse impact on our business, financial condition, liquidity and financial results. For further discussion, see above "Business Trends; Effects of COVID-19 on our Business."

During the nine months ended May 31, 2022, we had no borrowings under the Revolving Credit Agreement and have $45.0 million of availability remaining. During the nine months ended May 31, 2021, we had borrowed $17.0 million under the Revolving Credit Agreement and had $28.0 million of availability remaining.

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

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

Summary of Cash Flows

Our primary sources of liquidity and cash flows are operating cash flows, cash on hand and proceeds from our Revolving Credit Agreement. We use this to fund investing expenditures for new restaurant openings, reinvest in our existing restaurants, and contribute to our working capital. Our working capital position is impacted by collecting 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, whereas we typically have at least 30 days to pay our vendors.

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

	Nine Months Ended May 31,	
	2022	**2021**
Statement of Cash Flow data:	**(amounts in thousands)**	
Net cash provided by (used in) operating activities	$ 16,999	$ (9,697)
Net cash used in investing activities	$ (20,717)	$ (11,523)
Net cash (used in) provided by financing activities	$ (744)	$ 16,662

Cash Flows Provided by (Used in) Operating Activities

Net cash provided by operating activities during the nine months ended May 31, 2022 was $17.0 million, which results from a net loss of $2.7 million, non-cash charges of $4.1 million for depreciation and amortization, $1.8 million for stock-based compensation, and $2.3 million in non-cash lease expense, and net cash inflows of $11.5 million from changes in operating assets and liabilities. The net cash inflows from changes in operating assets and liabilities were primarily the result of decreases of $7.8 million in prepaid expenses and other current assets, which was primarily due to collection of $8.0 million of employee retention credits.

Net cash used in operating activities during the nine months ended May 31, 2021 was $9.7 million, which results from net loss of $9.5 million, non-cash charges of $3.3 million for depreciation and amortization, $1.0 million for stock-based compensation, and $2.0 million in non-cash lease expense, and net cash outflows of approximately $6.6 million from changes in operating assets and liabilities. The net cash outflows from changes in operating assets and liabilities were primarily the result of increases of $9.0 million in prepaid expenses and other current assets, and $1.2 million in accounts and other receivables, and a decrease of $1.0 million in operating lease liabilities, partially offset by increases of $3.0 million in salaries and wages payable, $1.1 million in accrued expenses and other current liabilities and $0.5 million sales tax payable. The increase in prepaid expenses and other current assets was primarily due to the employee retention credit recognized under the CARES Act extension.

Cash Flows Used in Investing Activities

Net cash used in investing activities during the nine months ended May 31, 2022 was $20.7 million, primarily due to $19.5 million in purchases of property and equipment, $0.8 million in purchases of liquor licenses and $0.4 million in payments for initial direct costs. The purchases of property and equipment in the nine months ended May 31, 2022 is primarily related to capital expenditures for current and future restaurant openings and renovations, maintaining our existing restaurants and other projects.

Net cash used in investing activities during the nine months ended May 31, 2021 was $11.5 million, primarily due to purchases of property and equipment. The purchases of property and equipment in the nine months ended May 31, 2021 was primarily related to capital expenditures for current and future restaurant openings, renovations, maintaining our existing restaurants and other projects.

Cash Flows (Used in) Provided by Financing Activities

Net cash used in financing activities during the nine months ended May 31, 2022 was $0.7 million and is primarily due to $0.8 million in repayments of principal on finance leases.

Net cash provided by financing activities during the nine months ended May 31, 2021 was $16.7 million primarily due to $17.0 million in loan proceeds from our Revolving Credit Agreement.

Contractual Obligations

As of May 31, 2022, we had $3.2 million in contractual obligations relating to the construction of new restaurants and purchase commitments for goods related to restaurant operations. All contractual obligations are expected to be paid during the next 12 months. For operating and finance lease obligations, see “Note 3. Leases” in the Notes to Condensed Financial Statements included in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

For a description of 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. Our critical accounting estimates are those that involve subjective or complex judgments by management. Although these estimates are based on management’s best knowledge of current events and actions that may impact us in the future, actual results may be materially different from the estimates. We believe the impairment of long-lived assets estimate is affected by significant judgments and estimates used in the preparation of our financial statements and that the judgments and estimates are reasonable.

There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended August 31, 2021. 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, 2021 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 IPO.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Commodity and Food Price Risks

Our profitability is dependent on, among other things, our ability to anticipate and react to changes in the costs of key operating resources, including food and beverages and other commodities. We have been able to partially offset cost increases resulting from a number of factors, including market conditions, shortages or interruptions in supply due to weather or other conditions beyond our control, governmental regulations, and inflation, by increasing our menu prices, as well as making other operational adjustments that increase productivity. However, substantial increases in costs and expenses could impact our operating results to the extent that 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, although inflationary pressures have increased across our business, including with respect to food and beverage costs, due in part to supply chain impacts of the pandemic and overall economic conditions in the markets in which we operate. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse impact on our business, financial condition or results of operations.

While we have been able to partially offset inflation and other changes in the costs of core operating resources by gradually increasing menu prices, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. From time to time, competitive conditions could limit our menu pricing flexibility. In addition, macroeconomic conditions could make additional menu price increases imprudent. There can be no assurance that 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 the same sales growth in an amount sufficient to offset inflationary or other cost pressures.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

A description of the risk factors associated with our business is contained in the "Risk Factors" section of our Annual Report on Form 10-K for our fiscal year ended August 31, 2021. 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.

Exhibit Number	Description
31.1*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

SIGNATURES

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

KURA SUSHI USA, INC.

Date: July 7, 2022

By: /s/ Steven H. Benrubi

Steven H. Benrubi
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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

I, Hajime Uba, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Dated: July 7, 2022

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

Exhibit 31.2

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

I, 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: July 7, 2022

/s/ Steven H. Benrubi
Steven H. Benrubi
Chief Financial Officer, Treasurer and Secretary

Exhibit 32.1

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

In connection with the Quarterly Report of Kura Sushi USA, Inc. (the “Company”) on Form 10-Q for the period ending May 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: July 7, 2022

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

Exhibit 32.2

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

In connection with the Quarterly Report of Kura Sushi USA, Inc. (the "Company") on Form 10-Q for the period ending May 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: July 7, 2022

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