



# 2015 ANNUAL REPORT AND PROXY STATEMENT





**Chipotle Mexican Grill, Inc.**

1401 Wynkoop Street, Suite 500  
Denver, CO 80202  
March 24, 2016

**Dear Fellow Shareholders:**

2015 was the most challenging year in Chipotle's history. The events of the year impacted our results and our reputation. We are committed to learning all we can from a difficult time to become a better company, and we strongly believe that our best days are ahead of us. We are also deeply committed to regaining the trust of our customers, and know that by doing so we will be in the best position to provide strong returns to our shareholders.

In times of adversity it's important to maintain and strengthen what we are good at, while learning all we can, such that we build on our strengths to create better restaurants and a better company. This means we will continue to pursue our vision to change the way people think about and eat fast food, but with a renewed and strengthened focus on serving food that is safe and delicious, made with Responsibly Raised ingredients. We will accomplish this by continuing to develop teams of empowered top performers, who will implement industry leading food safety procedures while protecting and strengthening our strong business model.

These past months, we have implemented a thoughtful, comprehensive system of food safety protocols. The scope and scale of these protocols is vast, and will help us become a leader in food safety. Today, we have more than 2,000 restaurants and nearly 60,000 employees who are poised to deliver the safest, most delicious food available.

We are proud of, and grateful for the way our teams have responded to help us address these challenges and to help us achieve our food safety goals. Building teams of top performers has always helped drive our business - preparing and serving delicious food, providing the best customer experience we can, and delivering strong unit economics - and we are confident that our teams will continue to execute these new food safety programs and delight our customers to keep them coming back.

Prior to the challenges we encountered in 2015, our business was on track for another year of robust growth. Through the third quarter, we had seen healthy growth in virtually every measure, with revenue up 15.3% on the opening of 150 new restaurants and comparable restaurant sales increases of 5.5%. This led to a 25.6% increase in diluted earnings per share through the first nine months of 2015. Unfortunately, the fourth quarter weighed heavily on the full year results, and overall sales for the year were up only 9.6%, and EPS increased 6.9% to \$15.10.

We are confident in our strategy, our people, and our suppliers. We have already seen initial signs of a sales recovery, but we know we have much more to accomplish to fully recover the trust and the loyalty of our customers. The morale of our teams is high and the quality of the customer experience they are delivering is excellent. As we continue to improve our culture of food safety, coupled with our reinvigorated commitment to our food and people cultures, we believe we will continue to change the way people think about and eat fast food.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Ellis".

Steve Ellis  
Chairman and Co-CEO

A handwritten signature in black ink, appearing to read "Monty Moran".

Monty Moran  
Co-CEO

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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: 1-32731

**CHIPOTLE MEXICAN GRILL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**84-1219301**  
(IRS Employer  
Identification No.)

**1401 Wynkoop Street, Suite 500 Denver, CO**  
(Address of Principal Executive Offices)

**80202**  
(Zip Code)

**Registrant's telephone number, including area code: (303) 595-4000**

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<b>Common stock, par value \$0.01 per share</b>	<b>New York Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company  
(do not check if a smaller reporting company)

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

As of June 30, 2015, the aggregate market value of the registrant's outstanding common equity held by non-affiliates was \$11.2 billion, based on the closing price of the registrant's common stock on such date, the last trading day of the registrant's most recently completed second fiscal quarter. For purposes of this calculation, shares of common stock held by each executive officer and director and by holders of 5% or more of the outstanding common stock have been excluded since those persons may under certain circumstances be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 29, 2016, there were 30,044,250 shares of the registrant's common stock, par value of \$0.01 per share outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2016 annual meeting of shareholders, which will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2015.

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### Cautionary Note Regarding Forward-Looking Statements

This report includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These statements, which involve risks and uncertainties, relate to the discussion of our business strategies and our expectations concerning future operations, margins, profitability, trends, liquidity and capital resources and to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. Forward-looking statements include statements regarding the effectiveness of enhanced food safety procedures we are implementing and the expected impact of those enhancements on our food, labor and other costs, our projections of the number and type of restaurants we expect to open in 2016, statements about possible repurchases of our common stock, expectations for occupancy costs and marketing and promotional spending as a percentage of revenue in 2016, forecasts of general and administrative expenses in 2016, projections of our effective tax rate for the year, projections of restaurant development costs and other expenses, and other statements of our expectations and plans. We have used words such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “think,” “estimate,” “seek,” “expect,” “predict,” “could,” “project,” “potential” and other similar terms and phrases, including references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties, risks and factors relating to our operations and business environments, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements. Such risks and other factors include those listed in Item 1A. “Risk Factors,” and elsewhere in this report.

When considering forward-looking statements in this report or that we make in other reports or statements, you should keep in mind the cautionary statements in this report and future reports we file with the SEC. New risks and uncertainties arise from time to time, and we cannot predict when they may arise or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this report as a result of new information, future events or other developments, except as required by applicable laws and regulations.

## ITEM 1. BUSINESS

### General

Chipotle Mexican Grill, Inc., a Delaware corporation, together with its subsidiaries (“Chipotle”, the “Company”, or “we”) operates Chipotle Mexican Grill restaurants, which serve a focused menu of burritos, tacos, burrito bowls (a burrito without the tortilla) and salads, made using fresh ingredients. As of December 31, 2015, we operated 1,971 Chipotle restaurants throughout the United States, as well as 11 in Canada, seven in England, four in France, and one in Germany. Additionally, our restaurants included 13 ShopHouse Southeast Asian Kitchen restaurants, serving Asian-inspired cuisine, and we are an investor in a consolidated entity that owned and operated three Pizzeria Locale restaurants, a fast casual pizza concept, resulting in a total of 2,010 restaurants as of December 31, 2015. We focus on finding the highest quality ingredients we can to make great tasting food; on building a special people culture that is centered on creating a team of top performers empowered to achieve high standards; on building restaurants that are operationally efficient and aesthetically pleasing; and on doing all of this with the highest regard for the safety of our customers and increasing awareness and respect for the environment. We have grown substantially over the past five years, and expect to open between 220 and 235 additional restaurants in 2016, including a small number of Chipotle restaurants outside the U.S. and ShopHouse and Pizzeria Locale restaurants within the U.S.

Our vision is to change the way people think about and eat fast food. We do this by avoiding a formulaic approach when creating our restaurant experience, looking to fine-dining restaurants for inspiration. We use high-quality raw ingredients, classic cooking methods and a distinctive interior design and have friendly people to take care of each customer – features that are more frequently found in the world of fine dining. Our approach is also guided by our belief in an idea we call “Food With Integrity.” Our objective is to find the highest quality ingredients we can – ingredients that are grown or raised with respect for the environment, animals and people who grow or raise the food.

We manage our operations and restaurants based on nine regions that aggregate into one reportable segment. Financial information about our operations, including our revenues and net income for the years ended December 31, 2015, 2014, and 2013, and our total assets as of December 31, 2015 and 2014, is included in our consolidated financial statements and accompanying notes in Item 8. “Financial Statements and Supplementary Data.”



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Substantially all of our revenues are generated and assets are located in the U.S. For a discussion of risks related to our international operations, see *"Risks Related to Our Growth Strategy and Future Expansion – Our expansion into international markets may present increased risks due to lower customer awareness of our brand, our unfamiliarity with those markets and other factors"* in Item 1A. "Risk Factors."

## **Our Menu and Food Preparation**

*Quality Assurance and Food Safety.* We are committed to serving safe, high quality food to our customers. Quality and food safety measures are found throughout our supply chain, from the farms that supply our food all the way through to our front line. We have established close relationships with some of the top suppliers in the industry, and we actively maintain a limited list of approved suppliers from whom our distributors must purchase. Our quality assurance department establishes and monitors our quality and food safety programs for our supply chain. Our training, operations, and risk management departments develop and implement operating standards for food quality, preparation, cleanliness and safety in the restaurants. Our food safety programs are also designed to ensure that we comply with applicable federal, state and local food safety regulations.

While our food safety programs have always been carefully designed and have been in conformance with applicable industry standards, in response to food safety incidents during 2015 that impacted hundreds of customers we have recently undertaken a comprehensive assessment of our food safety programs and practices. Using the assistance of highly respected experts we performed a review of the ingredients we use, with a goal of designing an industry-leading food safety program. Components of the new program include DNA-based testing of many ingredients designed to ensure the quality and safety of ingredients before they are shipped to our restaurants, changes to food preparation and food handling practices, including washing and cutting some produce items (such as tomatoes and romaine lettuce) in central kitchens, blanching of some produce items (including avocados, onions, jalapenos and citrus) in our restaurants before cutting them, and new protocols for marinating meats. We are also working to enhance our internal controls surrounding food safety by utilizing the Food and Drug Administration's Hazard Analysis Critical Control Point (HACCP) management system. Additionally, we are focused on internal training programs to ensure that all employees thoroughly understand our high standards for food safety and food handling, and we offer paid sick leave to employees to reduce incentives for employees to work while sick. These

and other enhancements underscore our commitment to becoming a leader in food safety while we continue to serve high quality food that our customers love.

*Food With Integrity.* Serving high quality food while still charging reasonable prices is critical to our vision to change the way people think about and eat fast food. As part of our Food With Integrity philosophy, we believe that purchasing fresh ingredients is not enough, so we spend time on farms and in the field to understand where our food comes from and how it is raised. Because our menu is so focused, we can concentrate on the sources of each ingredient, and this has become a cornerstone of our continuous effort to improve our food.

In all of our restaurants, we endeavor to serve only meats that were raised without the use of non-therapeutic antibiotics or added hormones, and in accordance with criteria we've established in an effort to improve sustainability and promote animal welfare. We brand these meats as "Responsibly Raised™." One of our primary goals is for all of our restaurants to serve meats raised to meet our standards, but we have and will continue to face challenges in doing so. For example, some of our restaurants did not serve carnitas for a portion of 2015, and some of our restaurants served conventionally raised chicken for periods during 2015, due to supply constraints for our Responsibly Raised meats. More of our restaurants may periodically serve conventionally raised meats or stop serving one or more menu items in the future due to additional supply constraints. When we become aware that one or more of our restaurants will serve conventionally raised meat, we clearly and specifically disclose this temporary change on signage in each affected restaurant so that customers can avoid those meats if they choose to do so.

We also seek to use more responsibly grown produce, meaning produce grown by suppliers who we believe respect the environment and their employees. A portion of our beans is organically grown and a portion is grown using conservation tillage methods that improve soil conditions, reduce erosion, and help preserve the environment in which the beans are grown. A portion of some of the other produce items we serve is organically grown as well. Our commitment to Food With Integrity also extends to the dairy products we serve. The sour cream and cheese we buy is made with milk that comes from cows that are not given rBGH (recombinant bovine growth hormone). Also, milk used to make much of our cheese and sour cream is sourced from pasture-based dairies that provide an even higher standard of animal welfare by providing outdoor access for their cows.

In the spring of 2015, we announced we have reached our goal of eliminating (as further described on our website) genetically modified organisms, or GMOs, from the ingredients in our food (not including beverages) in U.S. Chipotle restaurants, as well as ShopHouse Southeast Asian Kitchen. While the meat and poultry we serve is not genetically modified, the animals are likely fed a diet containing GMOs. Due to the prevalence of GMOs in a number of important feed crops, the vast majority of the grains used as animal feed in the U.S. are genetically modified. With respect to beverages, some of the beverages we serve are sweetened with corn-based sweeteners, which are typically made with genetically modified corn.

We do occasionally face challenges associated with pursuing our Food With Integrity mission. In addition to the supply challenges noted above, there can be higher costs and other risks associated with purchasing ingredients grown or raised with an emphasis on quality, environmental sustainability and other responsible practices. Growth rate and weight gain can be lower for chickens, cattle and pigs that are not fed non-therapeutic antibiotics and for cattle that are not given growth hormones. Crops grown organically or using other responsible practices can take longer to grow and crop yields can be lower. It can take longer to identify and secure relationships with suppliers that are able to meet our criteria for meat, dairy and produce ingredients. Given the costs associated with what we believe are responsible farming practices, many large suppliers have not found it economical to pursue business in this area. However, we believe that in addition to seeking great tasting and nutritious food, consumers are increasingly concerned about where their food comes from and how it is raised. And we believe that as consumers become more educated about better animal welfare and farming practices as well as social accountability, they will foster greater demand for responsibly grown foods in the long term. We believe that increased demand over the long term for the types of meat and produce items we strive to serve will continue to attract the interest and capital investment of larger farms and suppliers. We also understand that we'll continue to be at the forefront of this trend and must balance our interest in advancing Food With Integrity with our desire to provide great food at reasonable prices. If we are able to continue growing while focusing on Food With Integrity, we believe our sourcing flexibility will improve over time, though we expect that most of these ingredients and other raw materials will remain more expensive than conventionally raised, commodity-priced equivalents.

*A Few Things, Thousands of Ways.* Chipotle restaurants serve only a few things: burritos, burrito bowls, tacos and salads. But because customers can choose from four different meats or tofu, two types of beans and a variety of extras such as salsas, guacamole, cheese and lettuce, there's enough variety to extend our menu to provide thousands of choices. We plan to keep a simple menu, but we'll consider additions that we think make sense.

In preparing our food, we use stoves and grills, pots and pans, cutting knives and other kitchen utensils, walk-in refrigerators stocked with a variety of fresh ingredients, herbs and spices and dry goods such as rice. Ingredients we use include chicken and steak that is marinated and grilled in our restaurants, carnitas (seasoned and braised pork), barbacoa (spicy shredded beef) and vegetarian pinto and black beans. We add our rice, which is tossed with lime juice and freshly chopped cilantro, as well as freshly shredded cheese, sour cream, lettuce, peppers and onions, depending on each customer's request. We use various herbs, spices and seasonings to prepare our meats and vegetables. We also provide a variety of extras such as guacamole, salsas and tortilla chips seasoned with fresh lime juice and salt. In addition to sodas, fruit drinks and organic milk, most of our restaurants also offer a selection of beer and margaritas. Our food is prepared from scratch, with some prepared in our restaurants and some prepared with the same fresh ingredients in larger batches in commissaries.

*Food Served Fast ... So That Customers Can Enjoy It Slowly.* Our food is made slowly and carefully, but each customer order can be ready in seconds. Customers select exactly what they want and how they want it by speaking directly to the employees that prepared the food and are assembling the order. While we think our customers return because of the great-tasting food, we also think they like getting food served fast without having a typical "fast-food" experience. And while our restaurants often have lines, we try to serve customers as quickly as possible. We do this by focusing on what we call the "four pillars" of throughput: having a dedicated expeditor, who works just before the cashier to get drink and side orders and bag to-go orders; a dedicated linebacker, to make sure the serving line is stocked with all our ingredients so the employees on the line can focus on each customer's order; proper *mise en place*, or putting everything in its place before starting food preparation; and ensuring that we have "aces in their places," or well-trained employees at each position during all of our peak periods. When we do this well, our customers are served quickly without feeling rushed. We've even been able to serve more than 300 customers an hour at some locations.

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The natural flow of our restaurant layout, including the floor plan and the design of our serving line, are designed to make the food ordering process intuitive and, we believe, more efficient. And we constantly strive to improve the speed of service in all of our restaurants, so that we can accommodate more customers and larger orders without disrupting restaurant traffic. However, we've also introduced a number of additional ways to serve our customers. For instance, our restaurants accept orders online or through an iPhone or Android ordering application to provide a more convenient experience by allowing customers to avoid standing in line. We've also introduced catering in all U.S. Chipotle restaurants except in New York City, and we offer delivery service through a number of third party services with whom we've partnered. By emphasizing speed of service without compromising the genuine interactions between our customers and our crews, and by expanding ways for customers to enjoy Chipotle, we believe that we can provide a high quality experience to more and more customers.

## **Restaurant Management and Operations**

*Culture of Top Performers.* In addition to our focus on the food we serve, we have a similarly focused people culture with an emphasis on identifying, hiring and empowering top-performing employees. We are committed to creating a performance based culture that leads to the best restaurant experience possible for our employees and our customers. The foundation of that culture starts with hiring the best people in our restaurants. We make an effort to hire employees who share a passion for food and who will operate our restaurants in a way that is consistent with our high standards, yet allows each of their unique personalities and strengths to contribute to our success. We believe we provide attractive career opportunities to crew and managers who are committed to work hard, provide great customer service and have the ability to lead and empower a team of top performers. We provide hands on, shoulder-to-shoulder training, along with career path training materials, to develop the full potential of our restaurant employees. We are committed to developing our people and promoting from within, with about 84% of salaried management and about 97% of hourly management coming from internal promotions. Our best general managers, who run great restaurants and develop strong, empowered restaurant teams, may be promoted to Restaurateur and in that role can earn bonuses for developing people. We have leveraged our outstanding Restaurateurs' leadership by giving many Restaurateurs responsibility for mentoring one or more nearby restaurants. This provides an opportunity for Restaurateurs to develop into field leadership roles one restaurant at a time. Restaurateurs who have shown they can successfully

run four restaurants by developing teams of empowered top performers (including at least one Restaurateur), thereby creating a culture of high standards, constant improvement and empowerment in each of their restaurants, can be promoted to apprentice team leaders.

*Importance of Methods and Culture.* Although we have many restaurants, we believe that our departure from the automated cooking techniques and microwaves used by many traditional fast-food and fast-casual restaurants helps to set us apart. Our crews use classic cooking methods: they marinate and grill meats, make fresh salsa and guacamole, and cook rice in small batches throughout the day. They work in kitchens that more closely resemble those of high-end restaurants than they do a traditional fast-food place. Despite our more labor-intensive method of food preparation, our focused menu creates efficiencies which allow us to serve high quality food made from ingredients typically found in fine dining restaurants.

*The Front Line is Key.* Our restaurant and kitchen designs intentionally place crew members up front with customers to reinforce our focus on service, and our open kitchen design allows customers to see that we prepare our food fresh throughout each and every day. All of our restaurant employees are encouraged to interact with customers no matter their job, whether preparing food or serving customers during our busiest periods. We focus on attracting and retaining people who can deliver that experience for each customer. We provide each customer with individual attention and make every effort to respond to customer suggestions and concerns in a personal and hospitable way. We believe our focus on creating a positive and interactive experience helps build loyalty and enthusiasm for our brand among general managers, crew members and customers alike.

*Restaurant Team.* Each restaurant typically has a general manager or Restaurateur (a position we've characterized as the most important in the company), an apprentice manager (in most of our restaurants), and we aim to have two or three hourly service managers, one or two hourly kitchen managers and an average of 23 full and part-time crew members. We generally have two shifts at our restaurants, which simplifies scheduling and provides stability for our employees. We tend to have more employees in our busier restaurants. We cross-train our people so that each can work a variety of stations, allowing us to work efficiently during our busiest times, while giving our people the opportunity to develop a wider array of skills. Consistent with our emphasis on customer service, we encourage our general managers and crew members to welcome and interact with customers throughout the day.



In addition to the employees serving our customers at each restaurant, we also have a field support system that includes apprentice team leaders, team leaders or area managers, team directors, executive team directors, and restaurant support officers.

## Supply Chain

*Close Relationships with Suppliers.* Maintaining the high levels of quality and safety we expect in our restaurants depends in part on our ability to acquire high-quality, fresh ingredients and other necessary supplies that meet our specifications from reliable suppliers. Our 24 independently owned and operated regional distribution centers purchase from various suppliers we carefully select based on quality and their understanding of our mission, and we seek to develop mutually beneficial long-term relationships with suppliers. We work closely with our suppliers and use a mix of forward, fixed and formula pricing protocols, and our distribution centers purchase within the pricing guidelines and protocols we have established with the suppliers. We've tried to increase, where necessary, the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility and supply shortages, and we follow industry news, trade issues, weather, exchange rates, foreign demand, crises and other world events that may affect our ingredient prices. Certain key ingredients (beef, pork, chicken, beans, rice, sour cream, cheese, and tortillas) are purchased from a small number of suppliers. For a discussion of risks related to our supply chain, see *"Risks Related to Operating in the Restaurant Industry – Failure to receive frequent deliveries of higher-quality food ingredients and other supplies meeting our specifications could harm our operations"* and *"Risks Related to our Unique Business Strategy – Our Food With Integrity philosophy subjects us to risks"* in Item 1A. "Risk Factors."

## Marketing

A great dining experience in our restaurants is our most powerful marketing of all. But there is still a need to introduce our brand to new customers and engage with existing ones in other ways, by helping them understand what makes Chipotle different than other restaurants. Our advertising and promotional programs, in-store communications, and other design elements all help to communicate something about what differentiates Chipotle from typical fast food. Whether it's engaging with Chipotle via our various social media channels, participating in our local events, or simply eating a burrito at one of our restaurants, each customer interaction affords us an important opportunity to build our brand. As Chipotle works to reinvigorate our brand in the wake of the food safety-related incidents that affected us beginning in the fourth quarter of 2015, our marketing will have a greater emphasis

than usual on programs that are specifically designed to drive traffic into our restaurants. An element of our marketing and communications programs will also focus on supply chain transparency, as we work to help customers understand the changes we are making in an effort to establish ourselves as an industry leader in food safety.

Our advertising has generally included print, outdoor, transit, and radio ads, but we also incorporate digital advertising into the mix, and conduct strategic promotions that demonstrate our Food With Integrity mission while connecting us to like-minded individuals or organizations. Beyond these traditional channels, we continue to pioneer new avenues of branded content aimed at making consumers more curious about some of the issues that are important to us, and explaining why and how we are working to drive positive change in the nation's food supply.

We also recognize the need for our marketing to evolve, much as our unique food and people cultures have evolved in recent years. To this end, we have been developing more "owned media," including new video, music, and content programs, a more visible event strategy that includes our "Cultivate" food, music, and ideas festivals, and participation in relevant events in markets around the country. Many of these programs allow us to tell our story with more nuance than is afforded by traditional advertising, and help forge stronger emotional connections with our customers. We have also increased our use of digital, mobile, and social media in our overall marketing mix, giving customers greater opportunity to access Chipotle in ways that are convenient for them and broadening our ability to engage with our customers individually.

Alongside our excellent restaurant teams, these efforts have helped us create considerable word-of-mouth publicity as our customers learn more about us and share with others. This approach allows us to build awareness and loyalty with relatively low advertising expenditures, even in a competitive category, and to differentiate Chipotle as a company that is committed to doing the right thing in every facet of our business.

## Competition

The fast-casual, quick-service, and casual dining segments of the restaurant industry are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location, brand reputation, and the ambience and condition of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally-owned restaurants and

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national and regional chains. Many of our competitors offer dine-in, carry-out, catering, and delivery services. Among our main competitors are a number of multi-unit, multi-market Mexican food or burrito restaurant concepts, some of which are expanding nationally. Unlike Chipotle, a number of our competitors grow through franchising.

Some of our competitors have formats that might resemble ours, and many competitors are moving towards higher quality food to compete with us. A number of these competitors have sought to differentiate themselves with a focus that overlaps with many facets of our Food With Integrity mission. Additionally, several of our competitors compete by offering menu items that are specifically identified as lower in fat, carbohydrates, or calories or otherwise better for customers, or targeted at particular dietary preferences. Many of our competitors in the fast-casual and quick-service segment of the restaurant industry also emphasize lower-cost, "value meal" menu options, a strategy we do not currently pursue.

Moreover, we may also compete with companies outside the fast-casual, quick-service, and casual dining segments of the restaurant industry. For example, competitive pressures can come from deli sections and in-store cafés of major grocery store chains, including those targeted at customers who seek higher-quality food, as well as from convenience stores, cafeterias, and other dining outlets. These competitors may have, among other things, a more diverse menu, lower operating costs, better locations, better facilities, better management, more effective marketing, and more efficient operations than we do. For more information, see *"Risks Related to Operating in the Restaurant Industry – Competition could adversely affect us"* in Item 1A. "Risk Factors."

We believe we are well-positioned versus many of our competitors given current consumer trends, including increasing awareness and concern among consumers about what they eat and how it is prepared. We also believe that we're known for our focus on having teams of top-performing employees using classic cooking techniques to prepare food made from high-quality ingredients in an open restaurant kitchen – resulting in delicious food – as well as our commitment to "Food With Integrity." We think this unique combination adds up to an excellent customer experience in our restaurants, which we believe represents a significant competitive advantage in the segment in which we operate. However, we will need to re-establish customer trust in light of the food safety incidents that negatively impacted us beginning in the fourth quarter of 2015, and doing so in the competitive environment in which we

operate will be one of our key challenges in 2016 and beyond.

## **Restaurant Site Selection**

We believe site selection is critical to our success and thus we devote substantial time and effort to evaluating each potential location. Our site selection process is led by our internal team of real estate managers and also includes the use of external real estate brokers with expertise in specific markets. Locations proposed by real estate managers are reviewed by development management as part of a formal site ride, as well as in a written real estate package. We study the surrounding trade area, demographic and business information within that area, and available information on competitors and other restaurants. Based on this analysis, including utilization of predictive modeling using proprietary formulas, we determine projected sales and targeted return on investment. We have been successful in a number of different types of locations, such as in-line or end-cap locations in strip or power centers, in regional malls and downtown business districts, free-standing buildings, food courts, outlet centers, airports, military bases and train stations.

## **ShopHouse Southeast Asian Kitchen and Pizzeria Locale**

We believe that the fundamental principles on which our restaurants are based – finding the very best sustainably raised ingredients, prepared and cooked using classical methods in front of the customer, and served in an interactive format by special people dedicated to providing a great dining experience – can be adapted to cuisines other than the food we serve at Chipotle.

In order to see how our model works when we use different ingredients and a different style of food, we opened our first ShopHouse Southeast Asian Kitchen during 2011 and we now have a total of 13 ShopHouse restaurants. ShopHouse serves a menu that, like at Chipotle, is focused; main dishes consist of rice or noodle bowls made with steak, chicken, meatballs made with pork and chicken, or tofu. Further, during 2013, we invested in a consolidated entity that now owns and operates three Pizzeria Locale restaurants, a fast casual pizza concept serving a menu that includes classic pizzas and salads, from a selection of high-quality ingredients.

We expect our openings in 2016 to include a small number of ShopHouse and Pizzeria Locale restaurants, with our immediate restaurant expansion focus remaining on thoughtfully growing the Chipotle brand.

## Information Systems

We use a variety of applications and systems to securely manage the flow of information within each restaurant, and within our centralized corporate infrastructure. The services available within our systems and applications include restaurant operations, supply chain, inventory, scheduling, training, human capital management, financial tools, and data protection services. The restaurant structure is based primarily on a point-of-sales system that operates locally at the restaurant and is integrated with other functions necessary to restaurant operations. It records sales transactions, receives out of store orders, and authorizes, batches, and transmits credit card transactions. The system also allows employees to enter time clock information and to produce a variety of management reports. Select information that is captured from this system at each restaurant is collected in the central corporate infrastructure, which enables management to continually monitor operating results.

We will continue to invest in our applications and systems to support our continued expansion. See *"General Business Risks – We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential customer and employee information"* in Item 1A. "Risk Factors," for a discussion of risks associated with our information systems.

## Employees

As of December 31, 2015, we had about 59,330 employees, including about 5,100 salaried employees and about 54,230 hourly employees. None of our employees are unionized or covered by a collective bargaining agreement.

## Seasonality

Seasonal factors cause our profitability to fluctuate from quarter to quarter. Historically, our average daily restaurant sales and profits are lower in the first and fourth quarters due, in part, to the holiday season and because fewer people eat out during periods of inclement weather (the winter months) than during periods of mild or warm weather (the spring, summer and fall months). Other factors also have a seasonal effect on our results. For example, restaurants located near colleges and universities generally do more business during the academic year. Seasonal factors, however, might be moderated or outweighed by other factors that may influence our quarterly results, such as the adverse publicity that we saw during 2015 around food-borne illness incidents associated with our restaurants, as well as fluctuations in food or packaging costs or the timing of menu price increases.

## Our Intellectual Property and Trademarks

"Chipotle," "Chipotle Mexican Grill," "Unburrritable," "Food With Integrity," "Fresh Is Not Enough, Anymore," "The Gourmet Restaurant Where You Eat With Your Hands," "Responsibly Raised," "ShopHouse" and a number of related designs and logos are U.S. registered trademarks of Chipotle. We have filed trademark applications for a number of other marks in the U.S. In addition to our U.S. registrations, we have registered trademarks for "Chipotle" and a number of other marks in Canada, the European Union and various other countries, and have filed trademark applications for "Chipotle Mexican Grill," "Chipotle" and a number of other marks in various countries as well.

We also believe that the design of our restaurants is our proprietary trade dress. From time to time we have taken action against other restaurants that we believe are misappropriating our trademarks, restaurant designs or advertising. Although our policy is to protect and defend vigorously our rights to our intellectual property, we may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.

## Available Information

We maintain a website at [www.chipotle.com](http://www.chipotle.com), including an investor relations section at [ir.chipotle.com](http://ir.chipotle.com) in which we routinely post important information, such as webcasts of quarterly earnings calls and other investor events in which we participate or host, and any related materials. Our Code of Conduct is also available in this section of our website. You may access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as other reports relating to us that are filed with or furnished to the SEC, free of charge in the investor relations section of our website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The public may also read and copy materials we file with the SEC at the SEC's Public Reference Room, which is located at 100 F Street, NE, Room 1580, Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

The contents of the websites mentioned above are not incorporated into and should not be considered a part of this report. The references to the URLs for these websites are intended to be inactive textual references only.

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## ITEM 1A. RISK FACTORS

### **Risks Related to Food Safety Incidents that Occurred During 2015**

*Our system-wide restaurant sales were adversely impacted beginning in the fourth quarter of 2015 by food safety incidents associated with our restaurants, and we may not be able to regain lost sales.*

During late October and early November 2015, illnesses caused by E. coli bacteria were connected to a number of our restaurants, initially in Washington and Oregon, and subsequently to small numbers of our restaurants in as many as 12 other states. As a result of these reported illnesses and related restaurant closures for remediation, our company-wide sales were adversely impacted, with significant declines in our comparable restaurant sales in the days immediately following announcements related to the incidents. During the week of December 7, 2015, an unrelated incident involving norovirus was reported at a Chipotle restaurant in Brighton, Massachusetts, which worsened the adverse financial and operating impacts we experienced from the earlier E. coli incident. As a result, comparable restaurant sales (which represent the change in period-over-period sales for restaurants beginning in their 13th full month of operations) declined 14.6% for the fourth quarter of 2015, including a 30% decline in December 2015. Subsequent announcements and publicity regarding food safety incidents in our restaurants and the related criminal investigation described in Note 10. "Commitments and Contingencies" in our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" had an additional negative impact on our sales trends, with comparable restaurant sales declining over 36% in January 2016.

We believe the impact of these incidents on our sales has been exacerbated in part by the high expectations many customers have for us as a result of our Food With Integrity mission, and our failure to meet those expectations may make recovery more difficult for us. Additionally, the significant amount of media coverage regarding these incidents and the impact of social media (which was not in existence during many past food safety incidents involving other restaurant chains) in increasing the awareness of these incidents may also negatively impact our ability to recover from these incidents. As a result of the foregoing factors, it may take longer for our sales, and customer perception of our brand, to recover than has been the case during past food safety incidents associated with other restaurant chains, and our sales may not recover at all. Even if we are able to regain lost customers, we may not

recover to the same average restaurant sales we were achieving prior to the fourth quarter of 2015. We define average restaurant sales as the average trailing 12-month sales for restaurants in operation for at least 12 full calendar months.

In an effort to invite customers back into our restaurants, we are planning a number of marketing and promotional activities beginning in the first quarter of 2016, including distributing a large number of promotional offers for free or discounted food. The costs associated with these and other marketing activities will negatively impact our profitability. Additionally, these activities may not entice customers to visit our restaurants, and even if they do they may not result in customers returning for subsequent visits, and therefore may not be successful in helping us restore lost sales.

Declines in comparable restaurant sales have a significant adverse impact on our profitability, as described further under "*Risks Related to our Growth Strategy and Future Expansion – Our sales and profitability will be adversely affected if comparable restaurant sales continue to decline or otherwise fail to meet expectations in the future.*"

***Changes we have made in our operations, or that we make in the future, to further enhance the safety of the food we serve will adversely impact our financial performance and may negatively impact customer perception of our brand.***

As a result of the food safety incidents associated with our restaurants during 2015, we have implemented a number of enhancements to our food safety protocols, and intend to make additional enhancements, to ensure that our food is as safe as it can be. Many of our new procedures, which go beyond the industry-standard food safety practices that we were previously following, will increase the cost of some ingredients or the amount of labor required to prepare and serve our food. If we aren't able to increase sales to offset the increased costs resulting from these changes, our margins will fall well short of levels we have historically achieved. Even if we were to restore sales to levels we were achieving prior to the food safety incidents, the increased costs from these changes will result in lower margins than we were able to achieve in the past.

Additionally, some of the enhanced food safety procedures we have introduced or may introduce in the future rely on increased use of centralized food preparation, additional in-restaurant preparation steps, or new ingredients, some or all of which may be inconsistent with previous customer perceptions of our restaurant operations. To the extent

customers perceive any of these developments as a move away from our Food With Integrity strategy and/or towards a more traditional fast food experience, our ability to win back customers may be adversely impacted and our sales may decline or recover more slowly than they otherwise would have.

***Regulatory actions and litigation related to food safety incidents that impacted us beginning in the fourth quarter of 2015 may adversely impact us.***

We are facing ongoing government investigations into the food safety incidents that occurred in 2015, including the criminal investigation described in Note 10. "Commitments and Contingencies" in our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data." We also have received numerous claims from customers who were or claim to have been impacted by these incidents, and a number of those claimants have filed lawsuits against us. We are cooperating in the government investigations and with many of the customers impacted by these incidents, but will incur significant legal and other costs in doing so. We have also been sued in a shareholder class action lawsuit in connection with the decline in our stock price in the wake of the food safety incidents, and defending this lawsuit will subject us to significant legal expense. Additionally, the liabilities from customer claims and related litigation expenses may be greater than we anticipate due to the uncertainties inherent in litigation. All of these costs, liabilities and expenses will negatively impact our operating results. Moreover, publicity regarding any legal proceedings related to food safety incidents may increase or prolong consumer awareness of the incidents or otherwise negatively impact perceptions of our brand, which may hamper our ability to regain lost sales or attract new customers to our restaurants.

***Any further instances of food-borne or localized illnesses associated with our restaurants would result in increased negative publicity and further adverse impact on customer perceptions of our brand, which would likely result in further declines in our sales.***

Because of customer perceptions about our restaurants and brand in the wake of the food safety incidents described above, any future occurrence of food-borne illness associated with our restaurants would likely have an even more significant negative impact on our sales and our ability to regain customers. Although we have followed industry standard food safety protocols in the past and are further enhancing our food safety procedures to ensure that our food is as safe as it can be, we may still be at a

higher risk for food-borne illness occurrences than some competitors due to our greater use of fresh, unprocessed produce and meats, our reliance on employees cooking with traditional methods rather than automation, and our avoiding frozen ingredients. And in any event, no food safety protocols can completely eliminate the risk of food-borne illness in any restaurant, so our enhanced food safety protocols may not be successful in preventing a food-borne illness incident in the future. The risk of illnesses associated with our food might also increase in connection with an expansion of our catering business or other situations in which our food is served in conditions we cannot control. Even if food-borne illnesses arise from conditions outside of our control, the negative impact from any such illnesses is likely to be significant.

**Risks Related to our Growth Strategy and Future Expansion**

***Our sales and profitability will be further adversely affected if comparable restaurant sales continue to decline or otherwise fail to meet expectations in the future.***

While future sales growth will depend to an extent on our opening new restaurants, changes in comparable restaurant sales also affect our sales growth and will continue to be a critical factor affecting our profitability. This is because the profit margin on incremental comparable restaurant sales is generally higher as a result of comparable restaurant sales increases increasing the sales base over which fixed costs are spread. Conversely, declines in comparable restaurant sales, as we have seen since November 2015 as a result of the food safety incidents discussed elsewhere in this report, have a significant adverse effect on profitability due to the loss of the positive impact on profit margins associated with comparable restaurant sales increases.

Our ability to increase comparable restaurant sales depends on many factors, including:

- perceptions of the Chipotle brand and the safety and quality of our food;
- competition, especially from an increasing number of competitors in the fast casual segment of the restaurant industry and from other restaurant concepts whose strategies overlap with elements of our Food With Integrity philosophy;
- executing our strategies effectively, including our development strategy, our marketing and branding strategies, our initiatives to increase the speed at which our crews serve each customer, expanded use of online and other electronic ordering, increasing sales from our



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catering options, and new menu items, each of which we may not be able to accomplish or which may not have the impact we expect;

- changes in consumer preferences and discretionary spending, including weaker consumer spending during periods of economic difficulty or uncertainty;
- initial sales performance of new restaurants, and the impact of new Chipotle restaurants in the event customers who frequent one of our restaurants begin to visit one of our new restaurants instead, as further described below under “– *Our new restaurants, once opened, may not be profitable, and may adversely impact the sales of our existing restaurants*”;
- our ability to increase menu prices without adversely impacting transaction counts to such a degree that the impact from lower transactions equals or exceeds the benefit of the menu price increase and without “trade down” by customers or other reduction in average check in response to price increases;
- weather, road construction and other factors limiting access to our restaurants; and
- changes in government regulation that may impact customer perceptions of our food, including initiatives regarding menu labeling and marketing claims about the origin or makeup of some of the ingredients we serve.

A number of these factors are beyond our control. As a result, it is possible that changes in our comparable restaurant sales will continue to be negative or that we otherwise will not achieve our targeted or expected comparable restaurant sales.

Past declines in the rate of our comparable restaurant sales growth have significantly impacted our stock price. For example, beginning in the second quarter of 2015, prior to which we had reported five consecutive quarters of double-digit comparable restaurant sales increases, our comparable restaurant sales increases decelerated and following our reporting comparable restaurant sales increases of 2.6% for the third quarter of 2015, the price of our stock declined significantly. This included a decline of nearly 8% over the three trading days immediately following the report. Even the expectation of declining comparable restaurant sales increases has had a significant impact on our stock price in the past. For example, when we announced in October 2014 that we expected comparable restaurant sales for 2015 in the low to mid-single digit range (as opposed to the double-digit comparable restaurant sales increases we reported for the third quarter of 2014), the price of our common stock declined nearly 7% on the following trading day. Any future deceleration in or failure to meet market expectations for our comparable

restaurant sales increases would likely result in another significant decline in the price of our common stock.

***Increasing our sales and profitability depends substantially on our ability to open new restaurants in sites and on terms attractive to us, which is subject to many unpredictable factors.***

We had 2,010 restaurants in operation as of December 31, 2015. We plan to increase the number of our restaurants significantly, and plan to open between 220 and 235 new restaurants in 2016. However, we have in the past experienced delays in opening some restaurants and that could happen again as a result of any one or more of the following factors:

- our potential inability to locate and secure new restaurant sites in locations that we believe to be attractive;
- obstacles to hiring and training qualified operating personnel in the local market;
- difficulty managing construction and development costs of new restaurants at affordable levels, particularly in competitive markets and when real estate development activity is robust;
- delay or cancellation of new site development by developers and landlords, which may become increasingly common during periods of economic uncertainty or tight credit;
- difficulty ramping up the growth of our international business or new restaurant concepts, including for the reasons described below under “– *Our expansion into international markets may present increased risks due to lower customer awareness of our brand, our unfamiliarity with those markets and other factors*” and “– *ShopHouse Southeast Asian Kitchen, Pizzeria Locale and other new restaurant concepts may not contribute to our growth*”;
- difficulty negotiating leases with acceptable terms;
- any shortages of construction labor or materials;
- lack of availability of, or inability to obtain, adequate supplies of ingredients that meet our quality standards;
- failures or delays in securing required governmental approvals (including construction, parking and other permits); and
- the impact of inclement weather, natural disasters and other calamities.

One of our biggest challenges in opening new restaurants is staffing. We seek to hire only top-performing employees and to promote general managers from our crew, which may make it more difficult for us to staff all the restaurants we intend to open. Constraints on our hiring new employees are described further below under “*Risks*”

*Related to Operating in the Restaurant Industry – Our business could be adversely affected by increased labor costs or difficulties in finding the right employees for our restaurants and the right field leaders."*

Another significant challenge is locating and securing an adequate supply of suitable new restaurant sites. Competition for suitable new restaurant sites in our target markets can be intense, and development and leasing costs are increasing, particularly for urban locations. These factors could negatively impact our ability to manage our occupancy costs, which may adversely impact our profitability. In addition, any of these factors may be exacerbated by economic factors, which may result in developers and contractors seeing increased demand and therefore driving our construction and leasing costs up.

Any decision to delay or forego a significant number of new restaurant openings, or our inability to open the number of new restaurants we plan, due to any of the reasons set forth above could materially and adversely affect our growth strategy and our expected results. Moreover, as we open and operate more restaurants our rate of expansion relative to the size of our existing restaurant base will decline, which will make it increasingly difficult to achieve levels of sales and profitability growth that we have seen in the past.

Our progress in opening new restaurants from quarter to quarter may also occur at an uneven rate, which may result in quarterly sales and profit growth falling short of market expectations in some periods. Similarly, our growth strategy and the substantial investment associated with the development of each new restaurant (as well as the impact of our new restaurants on the sales of our existing restaurants) may cause our operating results to fluctuate and be unpredictable or adversely affect our profits.

***Our new restaurants, once opened, may not be profitable, and may adversely impact the sales of our existing restaurants.***

Historically, many of our new restaurants have opened with an initial ramp-up period typically lasting 24 months or more, during which they generated sales and income below the levels at which we expect them to normalize. This is in part due to the time it takes to build a customer base in a new area, and a larger proportion of our recent openings being in higher rent sites than we have historically targeted. It may also be difficult for us to attract a customer base if we are not able to staff our restaurants with employees who perform to our high standards. If we are unable to build the customer base that we expect for

new restaurant locations or overcome the higher fixed costs associated with new restaurant locations, new restaurants may not have similar results as our existing restaurants and may not be profitable. New restaurant sales volumes have been negatively impacted by the recent food safety issues described elsewhere in this report. The negative impact has been of similar magnitude to the impact we have seen on comparable restaurant sales, and as a result, new restaurant sales may have a larger adverse impact on our results than they have in the past.

Moreover, our new restaurant development activity has broadened recently to incorporate trade areas or restaurant sites in which we have little or no prior experience, including smaller or more economically mixed communities, highway sites, outlet centers, and restaurants in airports, food courts, or on military sites. The risks relating to building a customer base and managing development and operating costs may be more significant in some or all of these types of trade areas or restaurant sites, which could have an unexpected negative impact on our new restaurant operating results. In addition, in the event we are not able to contain increases in our average restaurant development costs, which could result from inflation, an increase in the proportion of higher cost locations, project mismanagement or other reasons, our new restaurant locations could also result in decreased profitability.

We have also opened restaurants in nearly all major metropolitan areas across the U.S. New restaurants opened in existing markets may adversely impact sales in previously-opened restaurants in the same market as customers who frequent our established restaurants begin to visit a newly-opened restaurant instead. This impact could worsen as we open additional restaurants, and could make it more difficult for us to increase comparable restaurant sales and profitability. Existing restaurants could also make it more difficult to build the customer base for newly-opened restaurants in the same market.

***Our expansion into international markets may present increased risks due to lower customer awareness of our brand, our unfamiliarity with those markets and other factors.***

In 2008 we opened our first restaurant outside the U.S., in Toronto, Canada. In 2010 we opened our first restaurant in the United Kingdom, in London; in 2012 we opened our first restaurant in France, in Paris; and in 2013 we opened our first restaurant in Germany, in Frankfurt. As of December 31, 2015, 23 of our restaurants were located outside of the U.S. As a result of our small number of

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restaurants outside the U.S. and the relatively short time we have been operating those restaurants, we have lower brand awareness, and less operating experience in these markets and our average restaurant sales and/or transaction counts may be lower in these markets than in the U.S. The markets in which we've opened restaurants outside the U.S., and any additional new markets we enter outside the U.S. in the future, have different competitive conditions, consumer tastes and discretionary spending patterns than our U.S. markets. As a result, new restaurants outside the U.S. may be less successful than restaurants in our existing markets. Specifically, due to lower consumer familiarity with the Chipotle brand, differences in customer tastes or spending patterns, or for other reasons, sales at restaurants opened outside the U.S. may take longer to ramp up and reach expected sales and profit levels, and may never do so, thereby affecting our overall growth and profitability. We have also seen some deterioration in sales trends at our international locations since late 2015, which we believe may be attributable to expanding awareness of the food-borne illness incidents described elsewhere in this report, and those trends may worsen as awareness of the incidents further expands. To build brand awareness in international markets, we may need to make greater investments in advertising and promotional activity than we originally planned, which could negatively impact the profitability of our operations in those markets.

We may also find it more difficult in international markets to hire, motivate and keep qualified employees who can project our vision, passion and culture, and labor costs may be higher in international markets due to increased regulation or local market conditions. In addition, restaurants outside the U.S. have had higher construction, occupancy and food costs than restaurants in existing markets, and we may have difficulty finding reliable suppliers or distributors or ones that can provide us, either initially or over time, with adequate supplies of ingredients meeting our quality standards. Markets outside the U.S. may also have regulatory differences with the U.S. with which we are not familiar, or that subject us to significant additional expense or to which we are not able to successfully adapt, which may have a particularly adverse impact on our sales or profitability in those markets and could adversely impact our overall results. Our overall results may also be negatively affected by currency risk on the transactions in other currencies and translation adjustments resulting from the conversion of our international financial results into the U.S. dollar.

### ***ShopHouse Southeast Asian Kitchen, Pizzeria Locale and other new restaurant concepts may not contribute to our growth.***

We believe that the fundamental principles on which Chipotle restaurants are based—finding the very best sustainably raised ingredients, prepared and cooked using classical methods in front of the customer, and served in an interactive format by special people dedicated to providing a great dining experience—can be adapted to cuisines other than the food we serve at Chipotle. In order to see how our model works when we use different ingredients and a different style of food, we opened ShopHouse Southeast Asian Kitchen during 2011 and now have a total of 13 ShopHouse restaurants, in and around Washington D.C., Los Angeles and Chicago. We also have a majority ownership interest in a company operating three fast casual Pizzeria Locale restaurants in Denver, Colorado, and Kansas City, Missouri and we plan to assist with the further expansion of Pizzeria Locale in the future. ShopHouse and Pizzeria Locale are new brands and they have lower brand awareness, lower sales and less operating experience than most Chipotle restaurants, and may not achieve the same restaurant economics as Chipotle restaurants. We have also explored investments in additional restaurant concepts, which also would be newer brands that may not achieve the same success as Chipotle. Notwithstanding our opening of ShopHouse, investment in Pizzeria Locale, and exploration of other restaurant brand opportunities, our immediate focus will remain on thoughtfully growing the Chipotle brand. As a result, we do not expect ShopHouse, Pizzeria Locale or other concepts to contribute to our growth in a meaningful way for at least the next several years. We may also determine not to move forward with any further expansion of ShopHouse or Pizzeria Locale or to invest in other restaurant concepts. These decisions would each limit our overall growth over the long term as well. Additionally, expansion of ShopHouse or Pizzeria Locale or investments in other restaurant concepts might distract our management, which could have an adverse impact on our core Chipotle business.

### ***Our failure to manage our growth effectively could harm our business and operating results.***

As described elsewhere in this report, our plans call for a significant number of new restaurants. Our existing restaurant management systems, financial and management controls, information systems and personnel may be inadequate to support our expansion. Managing our growth effectively will require us to continue to enhance these systems, procedures and controls and to hire, train and retain general managers, crew and corporate staff. We also are continuing to attempt to improve our field

management in an effort to develop additional top-performing general managers more quickly. We may not respond quickly enough to the changing demands that our expansion will impose on management, crew and existing infrastructure, and changes to our operating structure may result in increased costs or inefficiencies that we cannot currently anticipate. Changes as we grow may have a negative impact on the operation of our restaurants, and cost increases resulting from our inability to effectively manage our growth could adversely impact our profitability. We also place a lot of importance on our culture, which we believe has been an important contributor to our success. As we grow, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. Our failure to foster and maintain our corporate culture could also harm our business and operating results.

## **Risks Related to Operating in the Restaurant Industry**

***Our business could be adversely affected by increased labor costs or difficulties in finding the right employees for our restaurants and the right field leaders.***

Labor is a primary component of our operating costs, and we believe good managers and crew are a key part of our success. We devote significant resources to recruiting and training our general managers and crew. Increased labor costs due to factors like additional taxes or requirements to incur additional employee benefits costs, including the requirements of the Patient Protection and Affordable Care Act, or the Affordable Care Act, (discussed further under “Regulatory and Legal Risks – The effect of recent changes to U.S. healthcare laws may increase our healthcare costs and negatively impact our financial results,”), as well as competition and labor market pressures, increased minimum wage requirements, paid sick leave or vacation accrual mandates, and any changes in our restaurant staffing structure would adversely impact our operating costs. Our success also depends in part on the energy and skills of our employees and our ability to hire, motivate and keep qualified employees, especially general managers and crew members. As we grow, we believe we will need to promote or hire additional top-performing field leaders to ensure we hire and motivate good managers and crew, and it may be difficult to identify and keep those field leaders. Our failure to find and keep enough employees who are a good fit with our culture could delay planned restaurant openings, result in higher employee turnover or erode our employee and restaurant cultures, any of which could have a material adverse effect on our business and results of operations. Restaurant operators have traditionally

experienced relatively high employee turnover rates. Any increase in our turnover rates for managers or crew could be costly and could negatively impact our operations. Moreover, if our managers do not schedule our restaurant crews efficiently, our restaurants may be overstaffed at some times, which adversely impacts our labor costs as a percentage of revenue, decreasing our operating margins. Efficient staffing may be more challenging in 2016 due to the uncertainty in sales trends created by the food-borne illness incidents described elsewhere in this report.

Various states in which we operate are considering or have already adopted new immigration laws, and the U.S. Congress and Department of Homeland Security from time to time consider or implement changes to Federal immigration laws, regulations or enforcement programs as well. Changes in immigration or work authorization laws may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. We currently participate in the “E-Verify” program, an Internet-based, free program run by the U.S. government, to verify employment eligibility for all employees throughout our company. However, use of E-Verify does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers may subject us to fines or penalties, and we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and keep qualified employees. For example, following an audit by the Department of Homeland Security of the work authorization documents of our restaurant employees in Minnesota during 2010, we lost approximately 450 employees, resulting in a temporary increase in labor costs and disruption of our operations, including slower throughput, as we trained new employees, as well as some degree of negative publicity. The resulting broad-based civil and criminal investigations by the U.S. Attorney for the District of Columbia and U.S. Securities and Exchange Commission of our compliance with work authorization requirements and related disclosures and statements may be ongoing. See Note 10. “Commitments and Contingencies” in our consolidated financial statements included in Item 8. “Financial Statements and Supplementary Data.” Termination of a significant number of employees in specific markets or across our company due to work authorization or other regulatory issues would disrupt our operations including slowing our throughput,

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and could also cause additional adverse publicity and temporary increases in our labor costs as we train new employees. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration compliance laws. Our reputation and financial performance may be materially harmed as a result of any of these factors.

Because we do not franchise, risks associated with hiring and maintaining a large workforce, including increases in wage rates or the cost of employee benefits, compliance with laws and regulations related to the hiring, payment and termination of employees, and employee-related litigation, may be more pronounced for us than for restaurant companies at which some or all of these risks are borne by franchisees or other operating contractors.

### ***Changes in food and supply costs could adversely affect our results of operations.***

Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. Like all restaurant companies, we are susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal fluctuations, weather conditions, global demand, food safety concerns, generalized infectious diseases, fluctuations of the U.S. dollar, product recalls and government regulations. The cost of many basic foods for humans and animals, including corn, wheat, rice and cooking oils, has increased markedly in some years, resulting in upward pricing pressures on almost all of our raw ingredients including chicken, beef, tortillas and rice, increasing our food costs. Food prices for a number of our key ingredients escalated markedly at various points during 2014 and 2015 and there could be additional pricing pressure on key ingredients during 2016. Costs will increase from the enhanced food safety procedures described elsewhere in this report, and as a result we expect that food costs as a percentage of revenue in 2016 will increase compared to the full year 2015.

We could also be adversely impacted by price increases specific to meats raised in accordance with our sustainability and animal welfare criteria or other food items we buy as part of our Food With Integrity focus, the markets for which are generally smaller and more concentrated than the markets for food products that are conventionally raised and grown. Weather related issues, such as freezes or drought, may also lead to temporary spikes in the prices of some ingredients such as produce or meats. For instance, drought conditions in parts of the U.S.

resulted in significant increases in beef prices during 2014 and 2015. Increasing weather volatility or other long-term changes in global weather patterns, including any changes associated with global climate change, could have a significant impact on the price or availability of some of our ingredients. Any increase in the prices of the ingredients most critical to our menu, such as chicken, beef, cheese, avocados, beans, rice, tomatoes and pork, would adversely affect our operating results. Alternatively, in the event of cost increases with respect to one or more of our raw ingredients, we may choose to temporarily suspend serving menu items, such as guacamole or one or more of our salsas, rather than paying the increased cost for the ingredients. Any such changes to our available menu may negatively impact our restaurant traffic and comparable restaurant sales, and could also have an adverse impact on our brand.

### ***Competition could adversely affect us.***

The fast-casual, quick-service and casual dining segments of the restaurant industry are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location, brand reputation, and the ambience and condition of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally owned restaurants and national and regional chains. Many of our competitors offer dine-in, carry-out and delivery services. Many of our competitors have existed longer than we have and may have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. Among our main competitors are a number of multi-unit, multi-market Mexican food or burrito restaurant concepts, some of which are expanding nationally. Some of these competitors and other fast casual concepts have sought to duplicate various elements of our business operations, and more chains may copy us to varying degrees in the future. Additionally, our newer concepts, ShopHouse Southeast Asian Kitchen and Pizzeria Locale, operate in markets in which there are numerous competitors, including a number of large and well-known brands. A number of other companies or individuals in the restaurant industry have recently opened or invested in fast-casual pizza concepts. In addition, our strategy includes opening additional restaurants in existing markets, and as we do so sales may decline in our previously-opened restaurants as customers who frequent our established restaurants begin to visit a newly-opened restaurant instead.

Several of our competitors compete by offering menu items that are specifically identified as low in carbohydrates,



better for customers or otherwise targeted at particular consumer preferences. Many of our competitors in the fast-casual and quick-service segments of the restaurant industry also emphasize lower-cost, “value meal” menu options, a strategy we do not currently pursue. Our sales may be adversely affected by these products and price competition.

Moreover, we may also compete with companies outside the fast casual and quick service and casual dining segments of the restaurant industry. For example, competitive pressures can come from deli sections and in-store cafés of several major grocery store chains, including those targeted at customers who want higher-quality food, as well as from convenience stores and other dining outlets. These competitors may have, among other things, a more diverse menu, lower operating costs, better locations, better facilities, better management, more effective marketing and more efficient operations than we have.

Any of these competitive factors may adversely affect us and reduce our sales and profits.

***Instances of food-borne illnesses could adversely affect customer perceptions of, or the price or availability of, ingredients we use to prepare our food, which may adversely impact our sales.***

Past reports linking nationwide or regional incidents of food-borne illnesses such as salmonella, E. coli, hepatitis A, lysteria or norovirus to certain produce items have caused us to temporarily suspend serving some ingredients in our foods or to otherwise alter our menu, and have resulted in consumers avoiding certain products for a period of time. Similarly, outbreaks of avian flu, incidents of “mad cow” disease, or similar concerns have also caused consumers to avoid any products that are, or are suspected of being, affected. These problems, and injuries caused by food tampering have had in the past, and could have in the future, an adverse effect on the price and availability of affected ingredients. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a change in our menu or dining experience or a temporary closure of any of our restaurants, would further adversely impact our restaurant sales and profitability. In addition, if we react to these problems by changing our menu or other key aspects of the Chipotle experience, we may lose customers who do not accept those changes, and may not be able to attract enough new customers to generate sufficient revenue to make our restaurants profitable. Customers may also shift away from us if we choose to pass along to consumers any higher ingredient or

operating costs resulting from supply problems or operational changes associated with incidents of food-borne illnesses, which would also have a negative impact on our sales and profitability.

***Failure to receive frequent deliveries of higher-quality food ingredients and other supplies meeting our specifications could harm our operations.***

Our ability to maintain our menu depends in part on our ability to acquire ingredients that meet our specifications from reliable suppliers. Shortages or interruptions in the supply of ingredients caused by unanticipated demand, problems in production or distribution, food contamination (which we may detect more frequently under the high-resolution testing protocols we’ve recently introduced), inclement weather, a supplier ceasing operations or deciding not to follow our required protocols, or other conditions could adversely affect the availability, quality and cost of our ingredients, which could harm our operations. In particular, shortages of one or more of our menu items could force our restaurants to remove items from their menus, which may result in customers choosing to eat elsewhere. If that happens, our affected restaurants could experience significant reductions in sales during the menu item shortage, and potentially thereafter if customers do not return to us after the shortage is resolved. Our focus on a limited menu would make the consequences of a shortage of a key ingredient more severe than at other restaurants.

We have almost no long-term contracts with suppliers, and we have relied largely on a third party distribution network with a limited number of distribution partners. If any of our distributors or suppliers performs inadequately, or our distribution or supply relationships are disrupted for any reason, the risk of ingredient shortages may increase and our business, financial condition, results of operations or cash flows could be adversely affected. We currently depend on a limited number of suppliers for some of our key ingredients, including beef, pork, chicken, tofu, beans, rice, sour cream, cheese, and tortillas. Due to the unique nature of the products we receive from our Food With Integrity suppliers and as described in more detail below under “*Risks Related to Our Unique Business Strategy – Our Food With Integrity philosophy subjects us to risks,*” these suppliers could be more difficult to replace if we were no longer able to rely on them. If we have to seek new suppliers and service providers we may be subject to pricing or other terms less favorable than those we currently enjoy. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time, that could increase our expenses and cause

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shortages of food and other items at our restaurants, which could cause a restaurant to remove items from its menu. If that were to happen and customers change their dining habits as a result, affected restaurants could experience significant reductions in sales during the shortage or thereafter. Our focus on a limited menu would make the consequences of a shortage of a key ingredient more severe.

In the first quarter of 2015, through our ongoing auditing of suppliers, we identified a pork supplier that was not meeting our standards and suspended purchases of pork from this supplier. Without this supply, we did not have enough pork meeting our specifications for all of our restaurants and a large number of our restaurants were not serving carnitas for a number of months during 2015. We believe our comparable restaurant sales were adversely impacted as a result as customers chose to eat elsewhere rather than substituting a different one of our menu items for carnitas.

***Changes in customer tastes and preferences, spending patterns and demographic trends could cause sales to decline.***

Changes in customer preferences, general economic conditions, discretionary spending priorities, demographic trends, traffic patterns and the type, number and location of competing restaurants affect the restaurant industry. Our sales could be impacted by changes in consumer preferences in response to dietary concerns, including preferences regarding items such as calories, sodium, carbohydrates or fat. These changes could result in consumers avoiding our menu items in favor of other foods, and our focus on a limited menu could make the consequences of a change in consumer preferences more severe than our competitors may face. Some customers could also avoid freshly-prepared foods like those we serve, based on concerns regarding food safety. This may be more likely to impact us as a result of the widely-publicized food safety incidents we experienced in 2015.

Our success also depends to a significant extent on consumer confidence, which is influenced by general economic conditions and discretionary income levels. Our average restaurant sales may decline during economic downturns or periods of uncertainty, which can be caused by various factors such as high unemployment, increasing taxes, interest rates, or other changes in fiscal or monetary policy, high gasoline prices, declining home prices, tight credit markets or foreign political or economic unrest. Any material decline in consumer confidence or a decline in family “food away from home” spending could cause our

sales, operating results, profits, business or financial condition to decline. If we fail to adapt to changes in customer preferences and trends, we may lose customers and our sales may deteriorate.

***If we were to experience widespread difficulty renewing existing leases on favorable terms, our revenue or occupancy costs could be adversely affected.***

We lease substantially all of the properties on which we operate restaurants, and some of our leases are due for renewal or extension options in the next several years. Some leases are subject to renewal at fair market value, which could involve substantial increases, and a smaller number expire without any renewal option. While we currently expect to pursue the renewal of substantially all of our expiring restaurant leases, any difficulty renewing a significant number of such leases, or any substantial increase in rents associated with lease renewals, could adversely impact us. If we have to close any restaurants due to difficulties in renewing leases, we would lose revenue from the affected restaurants and may not be able to open suitable replacement restaurants. Substantial increases in rents associated with lease renewals would increase our occupancy costs, reducing our restaurant margins.

## **Regulatory and Legal Risks**

***Governmental regulation in one or more of the following areas may adversely affect our existing and future operations and results, including by harming our ability to open new restaurants or increasing our operating costs.***

***Employment and Immigration Regulations***

We are subject to various federal and state laws governing our relationship with and other matters pertaining to our employees, including wage and hour laws, requirements to provide meal and rest periods or other benefits, family leave mandates, requirements regarding working conditions and accommodations to certain employees, citizenship or work authorization and related requirements, insurance and workers' compensation rules and anti-discrimination laws. Complying with these rules subjects us to substantial expense and can be cumbersome, and can also expose us to liabilities from claims for non-compliance. For example, a number of lawsuits have been filed against us alleging violations of federal and state laws regarding employee wages and payment of overtime, meal and rest breaks, employee classification, employee record-keeping and related practices with respect to our employees. We could suffer losses from, and we incur legal costs to defend, these and similar cases, and the amount of such losses or

costs could be significant. In addition, several states and localities in which we operate and the federal government have from time to time enacted minimum wage increases, paid sick leave and mandatory vacation accruals, and similar requirements and these changes could increase our labor costs. In addition, see “– *The effect of recent changes to U.S. healthcare laws may increase our healthcare costs and negatively impact our financial results*” below for a discussion of risks related to recent changes in U.S. healthcare laws.

We also are audited from time to time for compliance with citizenship or work authorization requirements as well, and recent audit activity and federal criminal and civil investigations in this area are described in more detail above under “*Risks Related to Operating in the Restaurant Industry – Our business could be adversely affected by increased labor costs or difficulties in finding the right employees for our restaurants and the right field leaders,*” as well as in Note 10 “Commitments and Contingencies” in our consolidated financial statements included in Item 8. “Financial Statements and Supplementary Data.”

Unauthorized workers may subject us to fines or penalties, and if any of our workers are found to be unauthorized our business may be disrupted as we try to replace lost workers with additional qualified employees. On the other hand, in the event we wrongfully reject work authorization documents, or if our compliance procedures are found to have a disparate impact on a protected class such as a racial minority or based on the citizenship status of applicants, we could be found to be in violation of anti-discrimination laws. We could experience adverse publicity arising from enforcement activity related to work authorization compliance, anti-discrimination compliance, or both, that negatively impacts our brand and may make it more difficult to hire and keep qualified employees.

Moreover, in addition to the criminal and civil investigations mentioned above under “*Risks Related to Operating in the Restaurant Industry – Our business could be adversely affected by increased labor costs or difficulties in finding the right employees for our restaurants and the right field leaders,*” the office of the U.S. Attorney for the District of Columbia and the U.S. Securities and Exchange Commission have informed us that they are conducting parallel investigations into possible criminal and civil securities law violations relating to our employee work authorization compliance and related disclosures and statements as well. The foregoing investigations may continue to be expensive and distracting, and could subject us to fines, reputational damage, and other liabilities that could be significant.

Additionally, while we do not currently have any unionized employees, union organizers have engaged in efforts to

organize employees of other restaurant companies. If a significant portion of our employees were to become union organized, our labor costs could increase and our efforts to maintain a culture appealing only to top-performing employees could be impaired. Potential changes in labor laws, including the possible passage of legislation designed to make it easier for employees to unionize, could increase the likelihood of some or all of our employees being subjected to greater organized labor influence, and could have an adverse effect on our business and financial results by imposing requirements that could potentially increase our costs, reduce our flexibility and impact our employee culture.

#### *Americans with Disabilities Act and Similar State Laws*

We are subject to the U.S. Americans with Disabilities Act, or ADA, and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas. We have incurred substantial legal fees in connection with ADA-related complaints in the past, and we may in the future have to modify restaurants, for example by adding access ramps or redesigning certain architectural features, to provide service to or make reasonable accommodations for disabled persons under these laws. The expenses associated with these modifications, or any damages, legal fees and costs associated with litigating or resolving claims under the ADA or similar state laws, could be material.

#### *Nutrition and Food Regulation*

In recent years, there has been an increased legislative, regulatory and consumer focus at the federal, state and municipal levels on the food industry including nutrition and advertising practices. Restaurants operating in the quick-service and fast-casual segments have been a particular focus. For example, the State of California, New York City and a number of other jurisdictions around the U.S. have adopted regulations requiring that chain restaurants include calorie information on their menu boards or make other nutritional information available, and nation-wide nutrition disclosure requirements included in the U.S. health care reform law are scheduled to go into effect as of December 1, 2016. These nutrition disclosure requirements may increase our expenses or slow customers as they move through the line, decreasing our throughput. These initiatives may also change customer buying habits in a way that adversely impacts our sales.

#### *Privacy/Cybersecurity*

We are required to collect and maintain personal information about our employees, and we collect information about customers as part of some of our

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marketing programs as well. The collection and use of such information is regulated at the federal and state levels, and by the European Union and its member states, and the regulatory environment related to information security and privacy is evolving and increasingly demanding. At the same time, we are relying increasingly on cloud computing and other technologies that result in third parties holding significant amounts of customer or employee information on our behalf. If the security and information systems of ours or of outsourced third party providers we use to store or process such information are compromised or if we, or such third parties, otherwise fail to comply with these laws and regulations, we could face litigation and the imposition of penalties that could adversely affect our financial performance. Our reputation as a brand or as an employer could also be adversely affected from these types of security breaches or regulatory violations, which could impair our sales or ability to attract and keep qualified employees. Additional risks related to cybersecurity are described below under *"General Business Risks-We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential customer and employee information."*

### *Local Licensure, Zoning and Other Regulation*

Each of our restaurants is also subject to state and local licensing and regulation by health, alcoholic beverage, sanitation, food and workplace safety and other agencies. We may experience material difficulties or failures in obtaining the necessary licenses or approvals for new restaurants, which could delay planned restaurant openings. In addition, stringent and varied requirements of local regulators with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations.

### *Environmental Laws*

We are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling, release and disposal of hazardous or toxic substances, as well as local ordinances restricting the types of packaging we can use in our restaurants. We have not conducted a comprehensive environmental review of our properties or operations. We have, however, conducted investigations of some of our properties and identified contamination caused by third-party operations. We believe any such contamination has been or should be addressed by the third party. If the relevant third party does not address or has not addressed the identified contamination properly or completely, then under certain environmental laws, we could be held liable as an owner or operator to address any remaining contamination, sometimes without

regard to whether we knew of, or were responsible for, the release or presence of hazardous or toxic substances. Any such liability could be material. Further, we may not have identified all of the potential environmental liabilities at our properties, and any such liabilities could have a material adverse effect on our operations or results of operations. We also cannot predict what environmental laws will be enacted in the future, how existing or future environmental laws will be administered or interpreted, or the amount of future expenditures that we may need to make to comply with, or to satisfy claims relating to, environmental laws.

### *Other Aspects of Regulatory Risk*

From time to time we are the target of litigation in connection with various laws and regulations that cover our business. Much of this litigation occurs in California even though currently only about 17% of our restaurants are located there. As we continue to expand in California, or if we are not able to effectively manage the increased litigation risks and expenses we have experienced in California, our business may be adversely impacted to a greater extent than if we did not operate in, or minimized our operations in, California.

Because we do not franchise, the costs of compliance and other risks associated with government regulation of our business, as described above, may be more pronounced for us than for restaurant companies at which some or all of these risks are borne by franchisees or other operating contractors.

### ***The effect of recent changes to U.S. healthcare laws may increase our healthcare costs and negatively impact our financial results.***

We offer eligible full-time and part-time U.S. employees the opportunity to enroll in healthcare coverage subsidized by us. For various reasons, many of our eligible employees currently choose not to participate in our healthcare plans. However, under the comprehensive U.S. health care reform law enacted in 2010, the Affordable Care Act, changes that became effective in 2014, and especially the employer mandate and employer penalties that became effective January 1, 2015, may increase our labor costs significantly in future years. In 2015, we adopted a qualifying plan under the Affordable Care Act for our full-time hourly employees. Changes under the Affordable Care Act, including the imposition of a penalty on individuals who do not obtain healthcare coverage, may result in employees who are currently eligible but have not elected to participate in our healthcare plans increasingly finding it advantageous to do so, which may increase our healthcare costs in the future, which may further increase our healthcare expenses. It is

also possible that even in light of recent changes in the healthcare plans we offer, healthcare plans offered by other companies with which we compete for employees will make us less attractive to our current or potential employees. And in any event, implementing the requirements of the Affordable Care Act has imposed some additional administrative costs on us, and those costs may increase over time. The costs and other effects of these new healthcare requirements cannot be determined with certainty, but they may have a material adverse effect on our financial and operating results.

***We could be party to litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material money damages and other remedies.***

We're subject to numerous claims alleging violations of federal and state laws regarding workplace and employment matters, including wages, work hours, overtime, vacation and family leave, discrimination, wrongful termination, and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. Our customers also occasionally file complaints or lawsuits against us alleging that we're responsible for some illness or injury they suffered at or after a visit to our restaurants, or that we have problems with food quality, operations or our food related disclosure or advertising practices. See "*Governmental regulation in one or more of the following areas may adversely affect our existing and future operations and results, including by harming our ability to open new restaurants or increasing our operating costs*" above, for additional discussion of these types of claims. From time to time, we also face claims alleging that technology we use in our business infringes patents held by third parties. In addition, the restaurant industry has been subject to a growing number of claims based on the nutritional content of food products sold and disclosure and advertising practices. We have been subject to a number of these actions and may be subject to additional actions of this type in the future. We are also undergoing government investigations and have been sued in a shareholder class action lawsuit, each as described elsewhere in this report, including in Note 10 "Commitments and Contingencies" in our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data," and these matters may be particularly expensive to defend and/or resolve.

We believe the number of many of the foregoing types of claims has increased as our business has grown and we have become more visible to potential plaintiffs and their

lawyers, particularly in California. Regardless of whether any claims against us are valid, or whether we're ultimately held liable for such claims, they may be expensive to defend and may divert time and money away from our operations and hurt our performance. A significant judgment for any claims against us could materially and adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations, whether directed at us or at fast casual or quick-service restaurants generally, may also materially and adversely affect our reputation or prospects, which in turn could adversely affect our results.

**Risks Related to our Unique Business Strategy**

***We may not persuade customers of the benefits of paying our prices for higher-quality food.***

Our success depends in large part on our ability to persuade customers that food made with higher-quality ingredients is worth the prices they will pay at our restaurants relative to prices offered by some of our competitors, particularly those in the quick-service restaurant segment. We may not successfully educate customers about the quality of our food, and customers may not care even if they do understand our approach. That could require us to change our pricing, advertising or promotional strategies, which could materially and adversely affect our results of operations or the brand identity that we have tried to create. Additionally, it will likely be more difficult for us to persuade the public about the value of our food following the food-borne illnesses we experienced in 2015 and the associated deterioration of customer perceptions about our brand, and we cannot predict when those perceptions will improve, if ever. If customers are not persuaded that we offer a good value for their money, our restaurant transaction counts could be adversely affected, which would negatively impact our business results.

***Our Food With Integrity philosophy subjects us to risks.***

The principle of Food With Integrity constitutes a significant part of our business strategy. We use a substantial amount of ingredients grown or raised with an emphasis on practices we believe to be more sustainable or responsible than some conventional practices, and try to make food as fresh as we can. We do, however, face challenges associated with pursuing Food With Integrity. There are higher costs and other risks associated with purchasing ingredients grown or raised with an emphasis on quality, sustainability and other responsible practices. Growth rate and weight gain can be lower for chickens, cattle and pigs



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that are not fed sub-therapeutic antibiotics and for cattle that are not given growth hormones. Crops grown organically or using other responsible practices can take longer to grow and crop yields can be lower. It can take longer to identify and secure relationships with suppliers that are able to meet our criteria for meat, dairy and produce ingredients. Given the costs associated with what we believe are more responsible farming practices, as well as uncertainty regarding demand due to changing customer perceptions, economic trends and other factors, many large suppliers have not found it economical to pursue business in this area. Although all of our restaurants generally serve meat from animals raised in accordance with criteria we've established in an effort to improve sustainability and promote animal welfare, we may experience shortages of meat meeting these criteria due to suppliers suspending production, market conditions, or other forces beyond our control. In the first quarter of 2015, through our ongoing auditing of suppliers, we identified a pork supplier that was not meeting our standards and suspended purchases of pork from this supplier. Without this supply, we did not have enough pork meeting our specifications for all of our restaurants and a large number of our restaurants were not serving carnitas for a number of months during 2015. We believe our comparable restaurant sales were adversely impacted as a result. We have experienced shortages of beef or chicken meeting our protocols on a periodic basis over the past several years as well, resulting in our serving commodity beef and chicken, which may have a negative impact on customer perceptions of our brand.

If as a result of any of the factors described above we are unable to obtain a sufficient and consistent supply of our preferred ingredients on a cost-effective basis, our food costs could increase, adversely impacting our operating margins. These factors could also cause us difficulties in aligning our brand with Food With Integrity, which could make us less popular among our customers and cause sales to decline. Our commitment to Food With Integrity may also leave us open to actions against us or criticism from special interest groups whose ideas regarding food issues differ from ours or who believe we should pursue different or additional goals with our Food With Integrity approach. Any adverse publicity that results from such criticism could damage our brand and adversely impact customer traffic at our restaurants. We may also face adverse publicity or liability for false advertising claims if suppliers do not adhere to all of the elements of our Food With Integrity programs, such as responsible meat protocols, requirements for organic or sustainable growing methods, our use of non-GMO ingredients in our food, and similar

criteria on which we base our purchasing decisions. If any such supplier failures occur and are publicized, our reputation would be harmed and our sales may be adversely impacted. And our Food With Integrity message may result in customers holding us to a higher standard in terms of food safety as well, which may make it more difficult for us to recover from the food-borne illness incidents discussed elsewhere in this report.

Additionally, in response to increasing customer awareness and demand, some competitors have also begun to advertise their use of meats raised without the use of antibiotics or growth hormones, dairy products from cows not treated with rBGH, and other ingredients similar to those we seek as part of our Food With Integrity philosophy. If competitors become known for using these types of higher-quality or more sustainable ingredients, it could further limit our supply of these ingredients, and may make it more difficult for us to differentiate Chipotle and our restaurants, which could adversely impact our operating results.

***Our success may depend on the continued service and availability of key personnel.***

Our Chairman and co-Chief Executive Officer Steve Eills founded our company, has been the principal architect of our business strategy, and has led our growth from a single restaurant in 1993 to over 2,000 restaurants today. Monty Moran, our co-Chief Executive Officer, and Jack Hartung, our Chief Financial Officer, have also served with us since early in our company's history and much of our growth has occurred under their direction as well. We believe our executive officers, each of whom is an at-will employee without any employment contract, have created an employee culture, food culture and business strategy at our company that has been critical to our success and that may be difficult to replicate under another management team. We also believe that it may be difficult to locate and retain executive officers who are able to grasp and implement our unique strategic vision. If our company culture were to deteriorate following a change in leadership, or if a new management team were to be unsuccessful in executing our strategy or were to change important elements of our current strategy, our growth prospects or future operating results may be adversely impacted.

***Our marketing and advertising strategies may not be successful, which could adversely impact our business.***

We have developed a marketing and advertising strategy that we believe is unique in the restaurant industry. We have not generally advertised on television and engage in

very limited price or value-based promotions. Instead we invest in marketing and advertising strategies that we believe will increase customers' connection with our brand. If these marketing and advertising investments do not drive increased restaurant sales, the expense associated with these programs will adversely impact our financial results, and we may not generate the levels of comparable restaurant sales we expect. We may be particularly dependent on the success of our marketing programs in 2016, when we plan to invest significantly in marketing and promotional spending, including significant use of free and discounted food promotions, in an effort to attract customers back to our restaurants and reverse negative sales trends. These efforts may not be successful.

In addition, our marketing has increasingly incorporated elements intended to encourage customers to question sources or production methods commonly used to produce food. These elements of our marketing could alienate food suppliers and other food industry groups and may potentially lead to an increased risk of disputes or litigation if suppliers or other constituencies believe our marketing is unfair or misleading. Increased costs in connection with any such issues, or any deterioration in our relationships with existing suppliers, could adversely impact us or our reputation. Furthermore, if these messages do not resonate with our customers or potential customers, the value of our brands may be eroded.

We have also implemented strategies such as remote ordering and catering options in an effort to increase overall sales. Our catering program, in particular, is new and untested and may not increase our sales to the degree we expect, or at all. Catering and other out-of-restaurant sales options also introduce new operating procedures to our restaurants and we may not successfully execute these procedures, which could adversely impact the customer experience in our restaurants and thereby harm our sales and customer perception of our brand.

## General Business Risks

***We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential customer and employee information.***

We accept electronic payment cards for payment in our restaurants. During 2015 approximately 68.4% of our sales were attributable to credit and debit card transactions, and credit and debit card usage could continue to increase. A number of retailers have experienced actual or potential security breaches in which credit and debit card information may have been stolen, including a number of

highly publicized incidents with well-known retailers in recent years. In August 2004, the merchant bank that processed our credit and debit card transactions informed us that we may have been the victim of a possible theft of card data. As a result, we recorded losses and related expenses totaling \$4.3 million from 2004 through 2006.

We may in the future become subject to additional claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

We also are required to collect and maintain personal information about our employees, and we collect information about customers as part of some of our marketing programs as well. The collection and use of such information is regulated at the federal and state levels, and by the European Union and its member states, and the regulatory environment related to information security and privacy is increasingly demanding. At the same time, we are relying increasingly on cloud computing and other technologies that result in third parties holding significant amounts of customer or employee information on our behalf. We have seen an increase over the past several years in the frequency and sophistication of attempts to compromise the security of several of these systems. If the security and information systems that we or our outsourced third party providers use to store or process such information are compromised or if we, or such third parties, otherwise fail to comply with these laws and regulations, we could face litigation and the imposition of penalties that could adversely affect our financial performance. Our reputation as a brand or as an employer could also be adversely affected from these types of security breaches or regulatory violations, which could impair our sales or ability to attract and keep qualified employees.

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***Negative publicity relating to our restaurants or our company could adversely impact our reputation, which may significantly harm us.***

We depend significantly on customers' perception of and connection to our brand. In addition to the damage to our reputation from well-publicized food safety incidents during 2015 as described elsewhere in this report, we may experience negative publicity from time to time relating to food quality, customer complaints, restaurant facilities, advertising and other business practices, litigation alleging injuries, government investigations or other regulatory issues, our suppliers' potential failure to adhere to elements of our Food With Integrity protocols, other issues regarding the integrity of our suppliers' food processing, employee relationships, customer or employee data breaches, or other matters, regardless of whether the allegations are valid or whether we are held to be responsible. The negative impact of adverse publicity relating to one or more restaurants or any of the foregoing topics may extend far beyond the restaurant(s) involved and affect many more, or even all, of our restaurants. The considerable expansion in the use of social media over recent years can further amplify any negative publicity that may be generated. A similar risk exists with respect to unrelated food service businesses, if consumers associate those businesses with our own operations. And even publicity that could reasonably be viewed as positive may have adverse consequences on our business. For example, positive developments in regards to the food safety issues that have impacted us might have the effect of continuing or increasing customer awareness of the issue.

The adverse impact of publicity on customers' perception of us could have a further negative impact on our sales. If the impact of any such publicity is particularly long-lasting, the value of our brand may suffer and our ability to grow could be diminished. Additionally, negative publicity about our employment practices may affect our reputation among employees and potential employees, which could make it more difficult for us to attract and retain top-performing employees. That could adversely impact the quality of the customer experience we can offer and our operations generally, and may increase our labor costs as well.

***Our insurance coverage and self-insurance reserves may not cover future claims.***

We maintain various insurance policies for employee health, worker's compensation, general liability, property damage and auto liability. We are self-insured for our employee health plans but have third party insurance coverage to limit exposure for both individual and

aggregate claim costs. We are also responsible for losses up to a certain limit for worker's compensation, general liability, property damage and auto liability insurance.

For policies under which we are responsible for losses, we record a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions, and is closely monitored and adjusted when warranted by changing circumstances. Our history of claims experience is short and our significant growth rate could affect the accuracy of estimates based on historical experience. If a greater amount of claims occurs compared to what we estimated, or if medical costs increase beyond what we expected, our accrued liabilities might not be sufficient and we may be required to record additional expense. Unanticipated changes may also produce materially different amounts of expense than reported under these programs, which could adversely impact our results of operations.

***We may not be able to adequately protect our intellectual property, which could harm the value of our brands and adversely affect our business.***

Our ability to successfully implement our business plan depends in part on our ability to further build brand recognition using our trademarks, service marks, trade dress and other proprietary intellectual property, including our name and logos, our Food With Integrity strategy and the unique ambience of our restaurants. If our efforts to protect our intellectual property are inadequate, or if any third party misappropriates or infringes on our intellectual property, either in print or on the internet, the value of our brands may be harmed, which could have a material adverse effect on our business and might prevent our brands from achieving or maintaining market acceptance. We are aware of restaurants in foreign jurisdictions using menu items, logos and other branding that we believe are based on our intellectual property, and our ability to halt these restaurants from using these elements may be limited in jurisdictions in which we are not operating. This could have an adverse impact on our ability to successfully expand into other jurisdictions in the future. We may also encounter claims from prior users of similar intellectual property in areas where we operate or intend to conduct operations. This could harm our image, brand or competitive position and cause us to incur significant penalties and costs.

***Our quarterly results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to various factors.***

Our quarterly results may fluctuate significantly and could fail to meet the expectations of securities analysts and investors because of various factors, including:

- changes in comparable restaurant sales and customer visits, including as a result of perceptions about our brand, competition, changes in consumer confidence or discretionary spending, and other factors listed in these Risk Factors;
- additional negative publicity about the occurrence of food-borne illnesses, the ingredients we use, or other problems at our restaurants;
- fluctuations in supply costs, particularly for our most significant food items, including increased ingredient costs as a result of changes we've made to enhance the safety of our food;
- labor availability and wages of restaurant management and crew, as well as temporary fluctuations in labor costs as a result of large-scale changes in workforce;
- our ability to raise menu prices without adversely impacting customer traffic, particularly if food and labor costs continue to increase;
- the timing of new restaurant openings and related revenues and expenses;
- operating costs at newly opened restaurants, which are often materially greater during the first several months of operation;
- the impact of inclement weather, natural disasters and other calamities, such as freezes that have impacted produce crops and droughts that have impacted livestock and the supply of certain meats;
- variations in general economic conditions, including the impact of declining interest rates on our interest income;
- increases in infrastructure costs;
- litigation, settlement costs and related legal expense;
- tax expenses, impairment charges and other non-operating costs; and
- potential distraction or unusual expenses associated with our expansion into international markets or initiatives to expand new concepts.

Seasonal factors also cause our results to fluctuate from quarter to quarter. Our restaurant sales are typically lower during the winter months and the holiday season and during periods of inclement weather (because fewer people are eating out) and higher during the spring, summer and fall months (for the opposite reason). Our restaurant sales will

also vary as a result of the number of trading days – that is, the number of days in a quarter when a restaurant is open.

As a result of these factors, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year. Average restaurant sales or comparable restaurant sales in any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors, which could cause our stock price to fall. This risk may be a greater concern during 2016, as the significant negative impacts we have seen to our business in the wake of food safety incidents during the fourth quarter have made it considerably more difficult for analysts and investors to forecast our results for at least the next few quarters.

Additionally, we believe the market price of our common stock, which has generally traded at a higher price-earnings ratio than stocks of most or all of our peer companies, has typically reflected high market expectations for our future operating results. The trading market for our common stock has been volatile at times as well. As a result, if we fail to meet market expectations for our operating results in the future, any resulting decline in the price of our common stock could be significant.

***Our anti-takeover provisions may delay or prevent a change in control of us, which could adversely affect the price of our common stock.***

Certain provisions in our corporate documents and Delaware law may delay or prevent a change in control of us, which could adversely affect the price of our common stock. Our amended and restated certificate of incorporation and amended and restated bylaws contain some provisions that may make the acquisition of control of us without the approval of our board of directors more difficult, including provisions relating to the nomination, election and removal of directors, the structure of the board of directors and limitations on actions by our shareholders. In addition, Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. Any of these provisions may discourage a potential acquirer from proposing or completing a transaction that may have otherwise presented a premium to our shareholders.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

# PART I

(continued)

## ITEM 2. PROPERTIES

As of December 31, 2015, there were 2,010 Chipotle and other concept restaurants in operation. The table below sets forth the locations (by state or country) of all restaurants in operation.

Alabama	11
Arizona	74
Arkansas	5
California	351
Colorado	76
Connecticut	19
Delaware	4
District of Columbia	22
Florida	116
Georgia	36
Idaho	4
Illinois	120
Indiana	30
Iowa	8
Kansas	24
Kentucky	16
Louisiana	6
Maine	4
Maryland	70
Massachusetts	45
Michigan	24
Minnesota	58
Missouri	36
Montana	2
Nebraska	9
Nevada	24
New Hampshire	5
New Jersey	45
New Mexico	4
New York	115
North Carolina	39
North Dakota	1
Ohio	159
Oklahoma	10
Oregon	20
Pennsylvania	61
Rhode Island	7
South Carolina	16
Tennessee	15

Texas	149
Utah	8
Vermont	1
Virginia	84
Washington	30
West Virginia	5
Wisconsin	18
Wyoming	1
Canada	11
France	4
Germany	1
United Kingdom	7
Total	2,010

We categorize our restaurants as end-caps (at the end of a line of retail outlets), in-lines (in a line of retail outlets), free-standing, or other. Of our restaurants in operation as of December 31, 2015, we had 1,231 end-cap locations, 337 free-standing units, 311 in-line locations, and 131 other locations. The average restaurant size is about 2,530 square feet and seats about 58 people. Many of our restaurants also feature outdoor patio space.

Our main office is located at 1401 Wynkoop Street, Suite 500, Denver, Colorado, 80202 and our telephone number is (303) 595-4000. We lease our main office and substantially all of the properties on which we operate restaurants. For additional information regarding the lease terms and provisions, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – *Contractual Obligations*," as well as Note 8. "Leases" in our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data."

We own 17 properties and operate restaurants on all of them.

## ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 10. "Commitments and Contingencies" in our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data."

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.



## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table describes the per share range of high and low sales prices for shares of our common stock for the quarterly periods indicated, as reported by the New York Stock Exchange ("NYSE"). Our common stock trades on the NYSE under the symbol "CMG."

	High	Low
2014		
First Quarter	\$622.90	\$480.87
Second Quarter	\$ 602.21	\$ 472.41
Third Quarter	\$697.93	\$575.92
Fourth Quarter	\$696.56	\$607.55

	High	Low
2015		
First Quarter	\$ 727.97	\$ 647.28
Second Quarter	\$699.03	\$598.04
Third Quarter	\$ 758.61	\$ 597.33
Fourth Quarter	\$757.00	\$ 477.97

As of January 29, 2016, there were approximately 1,030 holders of our common stock, as determined by counting our record holders and the number of participants reflected in a security position listing provided to us by the Depository Trust Company. Because such "DTC participants" are brokers and other institutions holding shares of our common stock on behalf of their customers, the actual number of unique shareholders represented by these record holders is not known.

### Purchases of Equity Securities by the Issuer

The table below reflects shares of common stock we repurchased during the fourth quarter of 2015.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
October	41,301	\$665.27	41,301	\$127,630,875
<i>Purchased 10/1 through 10/31</i>				
November	166,807	\$599.47	166,807	\$ 27,635,641
<i>Purchased 11/1 through 11/30</i>				
December	401,137	\$ 526.61	401,137	\$ 116,394,274
<i>Purchased 12/1 through 12/31</i>				
Total	609,245	\$555.95	609,245	\$ 116,394,274

(1) Shares were repurchased pursuant to repurchase programs announced on February 3, 2015, July 21, 2015 and December 4, 2015.

(2) This column includes \$300 million in authorized repurchases announced on December 4, 2015, but does not include an additional \$300 million in authorized repurchases announced on January 6, 2016, and \$300 million in authorized repurchases announced on February 2, 2016. Each repurchase program has no expiration date. Authorization of repurchase programs may be modified, suspended, or discontinued at any time.

# PART II

(continued)

## Dividend Policy

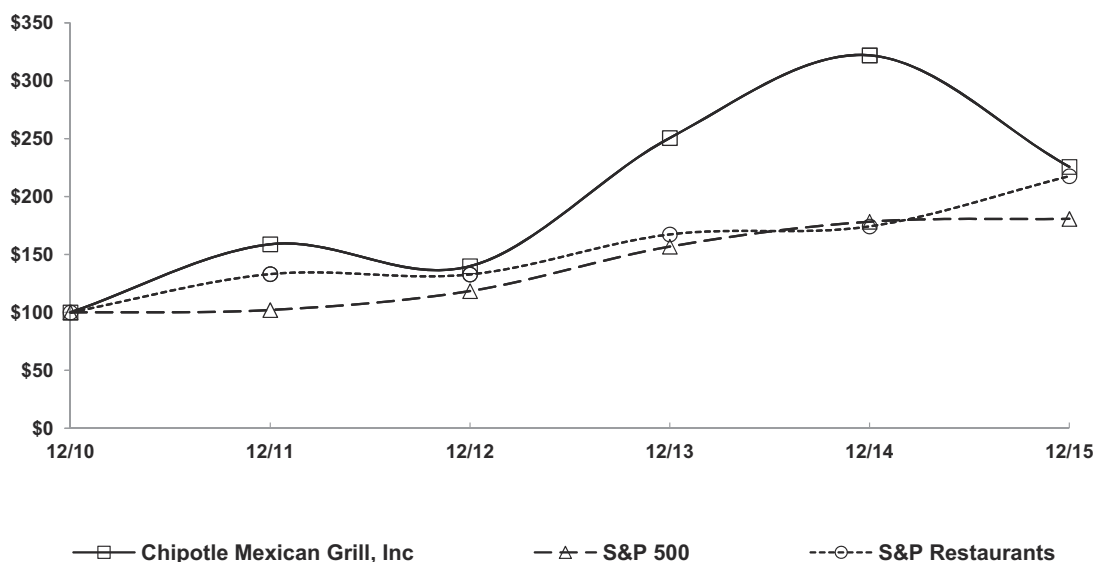
We are not required to pay any dividends and have not declared or paid any cash dividends on our common stock. We intend to continue to retain earnings for use in the operation and expansion of our business and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

## COMPARISON OF CUMULATIVE TOTAL RETURN

The following graph compares the cumulative annual stockholders return on our common stock from December 31, 2010 through December 31, 2015 to that of the total return index for the S&P 500 and the S&P 500 Restaurants Index assuming an investment of \$100 on December 31, 2010. In calculating total annual stockholder return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purposes only. They do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of our common stock. This graph is not "soliciting material," is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Chipotle Mexican Grill, Inc, the S&P 500 Index, and the S&P Restaurants Index



\*\$100 invested on 12/31/10 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

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## ITEM 6. SELECTED FINANCIAL DATA

Our selected consolidated financial data shown below should be read together with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and respective notes included in Item 8 “Financial Statements and Supplementary Data.” The data shown below are not necessarily indicative of results to be expected for any future period (in thousands, except per share data).

	Year ended December 31,				
	2015	2014	2013	2012	2011
<b>Statement of Income:</b>					
Revenue	\$ 4,501,223	\$ 4,108,269	\$ 3,214,591	\$ 2,731,224	\$ 2,269,548
Food, beverage and packaging costs	1,503,835	1,420,994	1,073,514	891,003	738,720
Labor costs	1,045,726	904,407	739,800	641,836	543,119
Occupancy costs	262,412	230,868	199,107	171,435	147,274
Other operating costs	514,963	434,244	347,401	286,610	251,208
General and administrative expenses	250,214	273,897	203,733	183,409	149,426
Depreciation and amortization	130,368	110,474	96,054	84,130	74,938
Pre-opening costs	16,922	15,609	15,511	11,909	8,495
Loss on disposal of assets	13,194	6,976	6,751	5,027	5,806
Total operating expenses	3,737,634	3,397,469	2,681,871	2,275,359	1,918,986
Income from operations	763,589	710,800	532,720	455,865	350,562
Interest and other income (expense), net	6,278	3,503	1,751	1,820	(857)
Income before income taxes	769,867	714,303	534,471	457,685	349,705
Provision for income taxes	(294,265)	(268,929)	(207,033)	(179,685)	(134,760)
Net income	\$ 475,602	\$ 445,374	\$ 327,438	\$ 278,000	\$ 214,945
Earnings per share					
Basic	\$ 15.30	\$ 14.35	\$ 10.58	\$ 8.82	\$ 6.89
Diluted	\$ 15.10	\$ 14.13	\$ 10.47	\$ 8.75	\$ 6.76
Weighted average common shares outstanding					
Basic	31,092	31,038	30,957	31,513	31,217
Diluted	31,494	31,512	31,281	31,783	31,775

	December 31,				
	2015	2014 <sup>(1)</sup>	2013 <sup>(1)</sup>	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>
<b>Balance Sheet Data:</b>					
Total current assets	\$ 814,647	\$ 859,511	\$ 653,095	\$ 537,745	\$ 494,954
Total assets	\$ 2,725,066	\$ 2,527,317	\$ 1,996,068	\$ 1,659,805	\$ 1,419,070
Total current liabilities	\$ 279,942	\$ 245,710	\$ 199,228	\$ 186,852	\$ 157,453
Total liabilities	\$ 597,092	\$ 514,948	\$ 457,780	\$ 413,879	\$ 374,844
Total shareholders’ equity	\$ 2,127,974	\$ 2,012,369	\$ 1,538,288	\$ 1,245,926	\$ 1,044,226

(1) Balances were adjusted because we adopted Financial Accounting Standards Board Accounting Standards Update No. 2015-17, “Income Taxes” which requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet, as discussed in further detail in Note 1. “Description of the Business and Summary of Significant Accounting Policies” in our consolidated financial statements included in Item 8. “Financial Statements and Supplementary Data.”

# PART II

(continued)

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion together with Item 6. "Selected Financial Data" and our consolidated financial statements and related notes included in Item 8. "Financial Statements and Supplementary Data." The discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause such differences include those described in Item 1A. "Risk Factors" and elsewhere in this report.*

### Overview

Chipotle operates fresh Mexican food restaurants serving burritos, tacos, burrito bowls (a burrito without the tortilla) and salads. We began with a simple philosophy: demonstrate that food served fast doesn't have to be a traditional "fast-food" experience. We do this by avoiding a formulaic approach when creating our restaurant experience, looking to fine dining restaurants for inspiration. We use high-quality raw ingredients, classic cooking methods and distinctive interior design, and have friendly people to take care of each customer – features that are more frequently found in the world of fine dining. Our approach is also guided by our belief in an idea we call "Food With Integrity." Our objective is to find the highest quality, safest ingredients we can – ingredients that are grown or raised with respect for the environment, animals, and people who grow or raise the food. A similarly focused people culture, with an emphasis on identifying and empowering top-performing employees, enables us to develop future leaders from within. We believe that these fundamental principles can be adapted to other cuisines as well.

### 2015 Highlights and Trends

*Food-Borne Illness Incidents.* Beginning in the fourth quarter of 2015, significant publicity regarding a number of food-borne illness incidents associated with Chipotle restaurants in as many as 15 states had a severe adverse impact on our sales and profitability. As a result of these incidents, comparable restaurant sales declined 14.6% for the fourth quarter of 2015, including a decline of 30% for the month of December, and the decline worsened to over 36% in January 2016. Comparable restaurant sales represent the change in period-over-period sales for restaurants beginning in their 13th full calendar month of operation. We anticipate some improvement in sales trends

as a result of the announcement on February 1, 2016 by the U.S. Centers for Disease Control and Prevention that it has closed its investigation into the E. coli incidents that first led to the significant decline in our comparable restaurant sales. However, due to the uncertainties created by the food-borne illness incidents, we are unable to provide estimates of any future movements in comparable restaurant sales. We plan to increase marketing and promotional spending considerably during the first half of 2016, including significant use of free and discounted food promotions, in an effort to attract customers back to our restaurants and reverse negative sales trends.

In addition to the impact on sales, the food-borne illness incidents resulted in non-recurring expenses in the fourth quarter of 2015 of approximately \$16.0 million, which includes food waste, impairment charges for kitchen equipment that will no longer be used, insurance claim estimates, increased marketing expenses, lab analysis of food samples and environmental swabs, and retaining expert advisory services related to epidemiology and food safety.

As part of our response to the food-borne illness incidents, we are implementing enhanced food safety procedures in our supply chain and restaurants that we expect to increase our food costs as a percentage of revenue. Some of these changes are expected to result in fewer labor hours being required in our restaurants, but we do not expect to see the benefit until free and discounted food promotions return to normal levels. We expect the ongoing net impact of the enhanced food safety procedures on our food and labor costs as a percentage of revenue to be approximately 2% when fully implemented and after our operations are normalized. Additionally, we expect that our restaurant operating costs as a percentage of revenue will continue to be significantly impacted due to expected lower average restaurant sales, as well as increased costs to support marketing initiatives. As a result of the sales impact from the food-borne illness incidents and the additional costs described above, we believe that our net income will be at approximately break-even levels in the first quarter of 2016.

*Sales.* Average restaurant sales were \$2.424 million as of December 31, 2015, decreasing from \$2.472 million as of December 31, 2014. We define average restaurant sales as the average trailing 12-month sales for restaurants in operation for at least 12 full calendar months, and as a result, the foregoing average restaurant sales include approximately 10 months of operations prior to the adverse impact of the food-borne illness incidents described above.

Accordingly, average restaurant sales will decrease further for as long as we continue to post comparable restaurant sales declines. Our comparable restaurant sales increases were 0.2% for the full year 2015. Comparable restaurant sales increases in 2015 were driven primarily by the impact of menu price increases taken nationwide in the second quarter of 2014 and in selected restaurants in the second half of 2015, offset by lower average number of transactions and group size, primarily in the fourth quarter. Menu price increases accounted for a 3.5% increase in our comparable restaurant sales increases for 2015.

*Restaurant Development.* As of December 31, 2015, we had 2,010 restaurants in operation, including 1,971 Chipotle restaurants throughout the United States, with an additional 11 in Canada, seven in England, four in France, and one in Germany. Our restaurants include 13 ShopHouse Southeast Asian Kitchen restaurants, serving Asian-inspired cuisine, and we are an investor in a consolidated entity that owns and operates three Pizzeria Locale restaurants, a fast casual pizza concept. New restaurants have contributed substantially to our restaurant sales growth and we opened 229 restaurants in 2015, and expect to open between 220 and 235 restaurants in 2016, including a small number of Chipotle restaurants outside of the U.S. and ShopHouse and Pizzeria Locale restaurants within the U.S.

*Food With Integrity.* In all of our restaurants, we endeavor to serve only meats that were raised without the use of non-therapeutic antibiotics or added hormones, and in accordance with criteria we've established in an effort to improve sustainability and promote animal welfare. We brand these meats as "Responsibly Raised™." In addition, a portion of some of the produce items we served was organically grown, and/or sourced locally when in season (by which we mean within 350 miles of the restaurant where it was served). A portion of the beans we serve is organically grown and a portion is grown using conservation tillage methods that improve soil conditions, reduce erosion and help preserve the environment in which they are grown. The sour cream and cheese we buy is made with milk that comes from cows that are not given rBGH. Milk used to make much of our cheese and sour cream is sourced from pasture-based dairies that provide an even higher standard of animal welfare by providing outdoor access for their cows. Further, we have achieved our goal of eliminating (as further described on our website) genetically modified organisms, or GMOs, from the ingredients in our food (not including beverages) in U.S. Chipotle restaurants, as well as ShopHouse Southeast Asian Kitchen. While the meat and poultry we serve is not genetically modified, the animals are likely fed a diet containing GMOs. We will continue to search for quality ingredients that not only taste delicious, but also benefit local farmers or the

environment, or otherwise benefit or improve the sustainability of our supply chain.

One of our primary goals is for all of our restaurants to continue serving meats that are raised to meet our standards, but we have and will continue to face challenges in doing so. In January 2015, through an ongoing audit of our suppliers, we identified a pork supplier that was not meeting our standards related to the size and condition of the housing offered to some of the pigs, so we suspended our purchases from this supplier. Without this supply, we were unable to get enough pork to meet our standards for all of our restaurants, and were not able to serve carnitas in many of our U.S. restaurants for a portion of the year. During the third quarter of 2015, we began introducing carnitas from a new pork supplier in the United Kingdom, and this new pork supply allowed us to serve carnitas in all of our restaurants by the end of 2015. Additionally, some of our restaurants may periodically serve conventionally raised beef or chicken or stop serving one or more menu items in the future due to supply constraints. When we become aware that one or more of our restaurants will serve conventionally raised meat, we clearly and specifically disclose this temporary change on signage in each affected restaurant, so that customers can avoid those meats if they choose to do so.

*Stock Repurchases.* In accordance with stock repurchases authorized by our Board of Directors, we purchased shares of our common stock during 2015 with an aggregate total repurchase price of \$485.8 million. As of December 31, 2015, \$116.4 million was available for stock repurchases under the authorization announced on December 4, 2015. We also announced authorizations by our Board of Directors of up to an additional \$300 million in common stock repurchases on January 6, 2016 and up to another additional \$300 million on February 2, 2016. We have purchased \$270.0 million of our common stock under these authorizations from January 1, 2016 through February 3, 2016. We have entered into an agreement with a broker under SEC rule 10b5-1(c), authorizing the broker to make open market purchases of common stock from time to time, subject to market conditions. The existing repurchase agreement and the Board's authorizations of the repurchases may be modified, suspended, or discontinued at any time.

## Restaurant Openings, Relocations and Closures

The following table details restaurant unit data for the years indicated.

	2015	2014	2013
Beginning of year	1,783	1,595	1,410
Openings	229	192	185
Relocations	(2)	(4)	–
<b>Total restaurants at end of year</b>	<b>2,010</b>	<b>1,783</b>	<b>1,595</b>



# PART II

(continued)

## Results of Operations

Our results of operations as a percentage of revenue and period-over-period variances are discussed in the following section. As we open more restaurants and hire more employees, our restaurant operating costs and depreciation and amortization increase.

### Revenue

	Year ended December 31,			% increase (decrease) 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Revenue	\$4,501.2	\$4,108.3	\$3,214.6	9.6%	27.8%
Average restaurant sales	\$ 2.424	\$ 2.472	\$ 2.169	(1.9%)	14.0%
Comparable restaurant sales increases	0.2%	16.8%	5.6%		
Number of restaurants as of the end of the period	2,010	1,783	1,595	12.7%	11.8%
Number of restaurants opened in the period, net of relocations	227	188	185		

In 2015, increased revenue was primarily driven by new restaurant openings. Revenue from restaurants not yet in the comparable base contributed \$390.4 million of the increase in sales in 2015, of which \$183.6 million was attributable to restaurants opened during the year.

In 2014, the significant factors contributing to our increases in revenue were comparable restaurant sales and new restaurant openings. Comparable revenue increases contributed \$530.0 million of the increase in restaurant sales, due primarily to increases in customer visits, and an increase in average check amount, including the benefit from menu price increases. Restaurant sales from restaurants not yet in the comparable base contributed \$364.7 million of the increase in sales in 2014, of which \$173.9 million was attributable to restaurants opened during the year.

### Food, Beverage and Packaging Costs

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Food, beverage and packaging	\$1,503.8	\$1,421.0	\$1,073.5	5.8%	32.4%
As a percentage of revenue	33.4%	34.6%	33.4%		

Food, beverage and packaging costs decreased as a percentage of revenue in 2015 primarily due to the benefit of the nation-wide menu price increases taken in the second quarter of 2014 and relief in dairy and avocado costs. The decrease was partially offset by inflation on beef costs.

Food, beverage and packaging costs increased as a percentage of revenue in 2014 due to inflation on many food items, primarily beef, avocados, and dairy. The increase was partially offset by the impact of menu price increases.

### Labor Costs

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Labor costs	\$1,045.7	\$904.4	\$739.8	15.6%	22.3%
As a percentage of revenue	23.2%	22.0%	23.0%		

Labor costs as a percentage of revenue increased in 2015 due primarily to wage inflation and an increased number of crew and managers in each of our restaurants caused by scheduling inefficiencies occurring earlier in the year. Based on expected lower average restaurant sales, we expect labor costs as a percentage of revenue to increase for 2016.

Labor costs as a percentage of revenue decreased in 2014 due primarily to the benefit of higher average restaurant sales, including the impact of menu price increases, partially offset by an increased number of managers and crew in our restaurants and normal wage inflation.

### Occupancy Costs

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Occupancy costs	\$262.4	\$230.9	\$199.1	13.7%	16.0%
As a percentage of revenue	5.8%	5.6%	6.2%		

Occupancy costs as a percentage of revenue increased in 2015 primarily due to higher average rents for new locations. Occupancy costs are expected to increase as a percentage of revenue during 2016 as a result of expected lower average restaurant sales.

In 2014, occupancy costs decreased as a percentage of revenue primarily due to the benefit of higher average restaurant sales on a partially fixed-cost base.

### Other Operating Costs

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Other operating costs	\$515.0	\$434.2	\$347.4	18.6%	25.0%
As a percentage of revenue	11.4%	10.6%	10.8%		

Other operating costs include, among other items, marketing and promotional costs, bank and credit card fees, and restaurant utilities and maintenance costs. Other operating costs increased in 2015 due primarily to a change in the classification of kitchen gloves out of food, beverage, and packaging costs beginning in 2015, and higher marketing and promotional costs. We expect other operating costs to increase significantly as a percentage of revenue for 2016 as we pursue a marketing campaign, including an increase in free food promotions, to regain customers after the recent food-borne illness incidents and due to expected lower average restaurant sales as a result of those incidents.

Other operating costs decreased as a percentage of revenue in 2014 due primarily to the benefit of higher average restaurant sales on a partially fixed-cost base.

### General and Administrative Expenses

	Year ended December 31,			% decrease 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
General and administrative expense	\$250.2	\$273.9	\$203.7	(8.6%)	34.4%
As a percentage of revenue	5.6%	6.7%	6.3%		

## PART II

(continued)

The decrease in general and administrative expenses in dollar terms for 2015 primarily resulted from decreased non-cash stock-based compensation expense, lower bonus expense, and decreased expense associated with our biennial All Managers' Conference, or AMC, held in the third quarter of 2014. Stock-based compensation expense decreased \$39.4 million. The decrease was primarily due to a change in the structure of our executive compensation, as well as a decrease in our estimate of non-vested performance stock awards that we expect to vest, resulting in a cumulative adjustment during the fourth quarter of 2015 reducing expense by \$12.2 million. The total decrease was partially offset by higher payroll costs as we grew. We expect general and administrative expenses in dollar terms for 2016 to increase due, in part, to additional stock-based compensation expense, payroll costs as we grow, and costs associated with our 2016 AMC scheduled for the third quarter of 2016.

The increase in general and administrative expenses in dollar terms in 2014 primarily resulted from increased non-cash stock-based compensation expense, higher payroll and bonus costs as we grew, as well as costs from our AMC held in the third quarter of 2014.

### Depreciation and Amortization

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Depreciation and amortization	\$130.4	\$110.5	\$96.1	18.0%	15.0%
As a percentage of revenue	2.9%	2.7%	3.0%		

Depreciation and amortization increased as a percentage of revenue in 2015 due to reinvestment costs for our restaurants as they age.

In 2014, depreciation and amortization decreased as a percentage of revenue as a result of the benefit of higher average restaurant sales on a partially fixed-cost base.

### Loss on Disposal of Assets

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Loss on disposal of assets	\$13.2	\$7.0	\$6.8	89.1%	3.3%
As a percentage of revenue	0.3%	0.2%	0.2%		

Loss on disposal of assets increased in 2015 due to impairment charges resulting from an internally developed software program that we chose not to implement and related hardware, the discontinued use of certain kitchen equipment as we move more food preparation to central kitchens, as well as restaurant relocations. Loss on disposal of assets remained relatively consistent in 2014.

### Income Tax Provision

	Year ended December 31,			% increase 2015 over 2014	% increase 2014 over 2013
	2015	2014	2013		
	(dollars in millions)				
Provision for income taxes	\$294.3	\$268.9	\$207.0	9.4%	29.9%
Effective tax rate	38.2%	37.6%	38.7%		

In 2015 and 2014, the effective tax rate was lower than 2013 because there was a decrease in the state tax rate. Additionally, 2014 included a benefit from filing the 2013 tax returns, which included a non-recurring change in the estimate of usable employer credits. For 2016, we expect the effective tax rate to be 39.0% due to expected lower income before income taxes.

### Quarterly Financial Data/Seasonality

The following table presents data from the consolidated statement of income and comprehensive income for each of the eight quarters in the period ended December 31, 2015. The operating results for any quarter are not necessarily indicative of the results for any subsequent quarter. Results from the quarter ended December 31, 2015 include the impact of the food-borne illness incidents described elsewhere in this report, and these incidents are likely to impact our results in future quarters.

	2015 Quarters Ended			
	March 31	June 30	September 30	December 31
Revenue	\$1,089.0	\$1,197.8	\$1,216.9	\$997.5
Operating income	\$ 197.8	\$ 227.4	\$ 234.8	\$ 103.6
Net income	\$ 122.6	\$ 140.2	\$ 144.9	\$ 67.9
Number of restaurants opened in quarter	49	48	53	79
Comparable restaurant sales increase (decrease)	10.4%	4.3%	2.6%	(14.6%)

	2014 Quarters Ended			
	March 31	June 30	September 30	December 31
Revenue	\$904.2	\$1,050.1	\$1,084.2	\$1,069.8
Operating income	\$ 135.7	\$ 179.8	\$ 207.4	\$ 187.9
Net income	\$ 83.1	\$ 110.3	\$ 130.8	\$ 121.2
Number of restaurants opened in quarter	44	45	43	60
Comparable restaurant sales increase	13.4%	17.3%	19.8%	16.1%

Seasonal factors cause our profitability to fluctuate from quarter to quarter. Historically, our average daily restaurant sales and net income are lower in the first and fourth quarters due, in part, to the holiday season and because fewer people eat out during periods of inclement weather (the winter months) than during periods of mild or warm weather (the spring, summer and fall months). Other factors also have a seasonal effect on our results. For example, restaurants located near colleges and universities generally do more business during the academic year. Seasonal factors, however, might be moderated or outweighed by other factors that may influence our quarterly results, such as the adverse publicity that we saw during 2015 around food-borne illness incidents associated with our restaurants, as well as fluctuations in food or packaging costs or the timing of menu price increases. The number of trading days in a quarter can also affect our results, although, on an overall annual basis, changes in trading dates do not have a significant impact.

Our quarterly results are also affected by other factors such as the amount and timing of non-cash stock-based compensation expense, the number of new restaurants opened in a quarter and unanticipated events. New restaurants typically have lower margins following opening as a result of the expenses associated with opening new restaurants and their operating inefficiencies in the months immediately following opening. In addition, unanticipated events also impact our results. Accordingly, results for a particular quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

### Liquidity and Capital Resources

Our primary liquidity and capital requirements are for new restaurant construction, working capital and general corporate needs. We have a cash and short-term investment balance of \$663.2 million that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business (primarily through opening restaurants), to repurchase additional shares of our common stock subject to market conditions, to maintain our existing restaurants and

## PART II

(continued)

for general corporate purposes. As of December 31, 2015, there was \$116.4 million remaining available under repurchase authorizations previously approved by our Board of Directors. We announced authorizations by our Board of Directors of up to an additional \$300 million in common stock repurchases on January 6, 2016, and up to another additional \$300 million on February 2, 2016. We also have a long term investments balance of \$622.9 million, which consists of U.S. treasury notes with maturities of 13 months to approximately 2 years. We believe that cash from operations, together with our cash and investment balances, will be enough to meet ongoing capital expenditures, working capital requirements and other cash needs for the foreseeable future.

We haven't required significant working capital because customers generally pay using cash or credit and debit cards and because our operations do not require significant receivables, nor do they require significant inventories due, in part, to our use of various fresh ingredients. In addition, we generally have the right to pay for the purchase of food, beverage and supplies some time after the receipt of those items, generally within ten days, thereby reducing the need for incremental working capital to support our growth.

One of our primary uses of cash is in new restaurant development. Our total capital expenditures for 2015 were \$257.4 million, and we expect to incur capital expenditures of about \$260 million in 2016, of which about \$200 million relates to our construction of new restaurants before any reductions for landlord reimbursements, and the remainder primarily relates to restaurant reinvestments, information technology and infrastructure initiatives as well as food safety initiatives. In 2015, we spent on average about \$805,000 in development and construction costs per restaurant, net of landlord reimbursements of approximately \$77,000. For new restaurants to be opened in 2016, we anticipate average development costs will remain generally consistent with 2015.

### Contractual Obligations

Our contractual obligations as of December 31, 2015 were as follows:

	2015				
	Total	1 year	2-3 years	4-5 years	After 5 years
Operating leases	\$ 3,468,012	\$ 239,683	\$ 486,064	\$ 485,184	\$ 2,257,081
Deemed landlord financing	\$ 4,316	\$ 421	\$ 846	\$ 855	\$ 2,194
Other contractual obligations <sup>(1)</sup>	\$ 286,281	\$ 285,850	\$ 431	\$ -	\$ -
Total contractual cash obligations	\$ 3,758,609	\$ 525,954	\$ 487,341	\$ 486,039	\$ 2,259,275

(1) We enter into various purchase obligations in the ordinary course of business. Those that are binding primarily relate to amounts owed for orders related to produce and other ingredients and supplies, construction contractor and subcontractor agreements, orders submitted for equipment for restaurants under construction, and marketing initiatives and corporate sponsorships.

The majority of our restaurants and administrative office leases are non-cancelable obligations. Our leases generally have initial terms of either five to ten years with two or more five-year extensions, for end-cap and in-line restaurants, or 10 to 15 years with several five-year extensions, for free-standing restaurants. Our leases generally require us to pay a proportionate share of real estate taxes, insurance, common charges and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds, although we generally do not expect to pay significant contingent rent on these properties based on the thresholds in those leases.

### Off-Balance Sheet Arrangements

As of December 31, 2015 and 2014, we had no off-balance sheet arrangements or obligations.

### Inflation

The primary areas of our operations affected by inflation are food, healthcare costs, labor, fuel, utility costs, materials used in the construction of our restaurants, and insurance. Although almost all of our crew members make more than the federal and applicable state and local minimum wage, increases in the applicable federal or state minimum wage may have an



impact on our labor costs by causing wage inflation above the minimum wage level. Additionally, many of our leases require us to pay property taxes, maintenance, utilities and insurance, all of which are generally subject to inflationary increases. In the past we have largely been able to offset inflationary increases with menu price increases. There have been, and there may be in the future, delays in implementing such menu price increases, and we do not expect to increase menu prices while our sales are depressed due to the food safety incidents discussed elsewhere in this report. If we do raise menu prices in the future, general competitive pressures may limit our ability to completely recover cost increases attributable to inflation.

## **Critical Accounting Estimates**

We describe our significant accounting policies in Note 1 and Note 6 of our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data." Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or factors. We believe the following critical accounting estimates affect our more significant judgments and estimates used in the preparation of our financial statements:

### **Leases**

We lease nearly all of our restaurant locations. Our leases typically contain escalating rentals over the lease term as well as optional renewal periods. We have estimated that our lease term, including reasonably assured renewal periods, is the lesser of the lease term or 20 years. We account for our leases by recognizing rent expense on a straight-line basis over the reasonably assured lease term. The majority of our leasehold improvements are also depreciated over the reasonably assured lease term. If the estimate of our reasonably assured lease term was changed, our depreciation and rent expense could differ materially.

### **Stock-based Compensation**

We recognize compensation expense for equity awards over the vesting period based on the award's fair value. We use the Black-Scholes valuation model to determine the fair value of our stock-only stock appreciation rights, or SOSARs, and we use the Monte Carlo simulation model to determine the fair value of stock awards that contain market conditions. Both of these models require assumptions to be made regarding our stock price volatility, the expected life of the award and expected dividend rates. The volatility assumption was based on our historical data and implied volatility, and the expected life assumptions were based on our historical data. Similarly, the compensation expense of performance share awards, and SOSARs with performance-based vesting conditions is based in part on the estimated probability of our achieving levels of performance associated with particular levels of payout for performance shares and with vesting for performance SOSARs. We determine the probability of achievement of future levels of performance by comparing the relevant performance level with our internal estimates of future performance. Those estimates are based on a number of assumptions, and different assumptions may have resulted in different conclusions regarding the probability of our achieving future levels of performance relevant to the payout levels for the awards. Had we arrived at different assumptions of stock price volatility or expected lives of our SOSARs, or different assumptions regarding the probability of our achieving future levels of performance with respect to performance share awards and performance SOSARs, our stock-based compensation expense and results of operations could have been different. Awards that contain service, performance and market conditions ultimately vest based on Chipotle's relative performance versus a restaurant industry peer group in the annual averages of revenue growth, net income growth, and total shareholder return. Our estimates of Chipotle's future performance and the future performance of the restaurant industry peer group are assumptions. If we had arrived at different assumptions for revenue growth, net income, or total shareholder return for Chipotle or the peer group, our stock-based compensation expense and results of operations could have been different.

### **Insurance Liability**

We maintain various insurance policies for workers' compensation, general liability and auto damage with varying deductibles as high as \$1 million, and for property which generally has a \$1.5 million deductible. We are self-insured for employee health but have third party insurance coverage to limit exposure to these claims. We record a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and

## PART II

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economic conditions, and is closely monitored and adjusted when warranted by changing circumstances. In addition, our history of claims experience is short and our significant growth rate could affect the accuracy of estimates based on historical experience. Should a greater amount of claims occur compared to what was estimated or medical costs increase beyond what was expected, our accrued liabilities might not be sufficient and additional expenses may be recorded. Actual claims experience could also be more favorable than estimated, which would result in expense reductions. Unanticipated changes may produce materially different amounts of expense than that reported under these programs. The total estimated insurance liabilities as of December 31, 2015 were \$40.3 million.

### **Reserves/Contingencies for Litigation and Other Matters**

We are involved in various claims and legal actions that arise in the ordinary course of business. These actions are subject to many uncertainties, and we cannot predict the outcomes with any degree of certainty. Consequently, we were unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of December 31, 2015. Although we have recorded liabilities related to a number of legal actions, our estimates used to determine the amount of these liabilities may not be accurate, and there are other legal actions for which we have not recorded a liability. As a result, in the event legal actions for which we have not accrued a liability or for which our accrued liabilities are not accurate are resolved, such resolution may affect our operating results and cash flows.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

### **Commodity Price Risks**

We are exposed to commodity price risks. Many of the ingredients we use to prepare our food, as well as our packaging materials, are commodities or ingredients that are affected by the price of other commodities, exchange rates, foreign demand, weather, seasonality, production, availability and other factors outside our control. We work closely with our suppliers and use a mix of forward pricing protocols under which we agree with our supplier on fixed prices for deliveries at some time in the future, fixed pricing protocols under which we agree on a fixed price with our supplier for the duration of that protocol, and formula pricing protocols under which the prices we pay are based on a specified formula related to the prices of the goods, such as spot prices. However, a majority of the dollar value of goods purchased by us is effectively at spot prices. Generally our pricing protocols with suppliers can remain in effect for periods ranging from one to 18 months, depending on the outlook for prices of the particular ingredient. In several cases, we have minimum purchase obligations. We've tried to increase, where necessary, the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility, and we follow industry news, trade issues, exchange rates, foreign demand, weather, crises and other world events that may affect our ingredient prices. Increases in ingredient prices could adversely affect our results if we choose for competitive or other reasons not to increase menu prices at the same rate at which ingredient costs increase, or if menu price increases result in customer resistance.

### **Changing Interest Rates**

We are also exposed to interest rate risk through fluctuations of interest rates on our investments. Changes in interest rates affect the interest income we earn, and therefore impact our cash flows and results of operations. As of December 31, 2015, we had \$1,084.2 million in investments and interest-bearing cash accounts, including an insurance related restricted trust account classified in other assets, and \$199.1 million in accounts with an earnings credit we classify as interest income, which combined earned a weighted average interest rate of 0.62%.

### **Foreign Currency Exchange Risk**

A portion of our operations consist of activities outside of the U.S. and we have currency risk on the transactions in other currencies and translation adjustments resulting from the conversion of our international financial results into the U.S. dollar. However, a substantial majority of our operations and investment activities are transacted in the U.S. and therefore our foreign currency risk is limited at this date.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## **Report of Independent Registered Public Accounting Firm**

### **The Board of Directors and Shareholders of Chipotle Mexican Grill, Inc.**

We have audited the accompanying consolidated balance sheets of Chipotle Mexican Grill, Inc. (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chipotle Mexican Grill, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Chipotle Mexican Grill, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 4, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
February 4, 2016

**CHIPOTLE MEXICAN GRILL, INC.**  
**CONSOLIDATED BALANCE SHEET**  
**(in thousands, except per share data)**

	December 31,	
	2015	2014 (as adjusted)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 248,005	\$ 419,465
Accounts receivable, net of allowance for doubtful accounts of \$1,176 and \$1,199 as of December 31, 2015 and December 31, 2014, respectively	38,283	34,839
Inventory	15,043	15,332
Prepaid expenses and other current assets	39,965	34,795
Income tax receivable	58,152	16,488
Investments	415,199	338,592
<b>Total current assets</b>	<b>814,647</b>	<b>859,511</b>
Leasehold improvements, property and equipment, net	1,217,220	1,106,984
Long term investments	622,939	496,106
Other assets	48,321	42,777
Goodwill	21,939	21,939
<b>Total assets</b>	<b>\$2,725,066</b>	<b>\$ 2,527,317</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 85,709	\$ 69,613
Accrued payroll and benefits	64,958	73,894
Accrued liabilities	129,275	102,203
<b>Total current liabilities</b>	<b>279,942</b>	<b>245,710</b>
Deferred rent	251,962	219,414
Deferred income tax liability	32,305	21,561
Other liabilities	32,883	28,263
<b>Total liabilities</b>	<b>597,092</b>	<b>514,948</b>
Shareholders' equity:		
Preferred stock, \$0.01 par value, 600,000 shares authorized, no shares issued as of December 31, 2015 and December 31, 2014, respectively	-	-
Common stock \$0.01 par value, 230,000 shares authorized, and 35,790 and 35,394 shares issued as of December 31, 2015 and December 31, 2014, respectively	358	354
Additional paid-in capital	1,172,628	1,038,932
Treasury stock, at cost, 5,206 and 4,367 common shares at December 31, 2015 and December 31, 2014, respectively	(1,234,612)	(748,759)
Accumulated other comprehensive income (loss)	(8,273)	(429)
Retained earnings	2,197,873	1,722,271
<b>Total shareholders' equity</b>	<b>2,127,974</b>	<b>2,012,369</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$2,725,066</b>	<b>\$ 2,527,317</b>

See accompanying notes to consolidated financial statements.



# PART II

(continued)

## CHIPOTLE MEXICAN GRILL, INC. CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME (in thousands, except per share data)

	Year ended December 31,		
	2015	2014	2013
Revenue	\$ 4,501,223	\$ 4,108,269	\$ 3,214,591
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):			
Food, beverage and packaging	1,503,835	1,420,994	1,073,514
Labor	1,045,726	904,407	739,800
Occupancy	262,412	230,868	199,107
Other operating costs	514,963	434,244	347,401
General and administrative expenses	250,214	273,897	203,733
Depreciation and amortization	130,368	110,474	96,054
Pre-opening costs	16,922	15,609	15,511
Loss on disposal of assets	13,194	6,976	6,751
Total operating expenses	3,737,634	3,397,469	2,681,871
Income from operations	763,589	710,800	532,720
Interest and other income (expense), net	6,278	3,503	1,751
Income before income taxes	769,867	714,303	534,471
Provision for income taxes	(294,265)	(268,929)	(207,033)
Net income	\$ 475,602	\$ 445,374	\$ 327,438
Other comprehensive income (loss), net of income taxes:			
Foreign currency translation adjustments	(6,322)	(2,049)	596
Unrealized loss on investments, net of income taxes of \$946, \$0, and \$0	(1,522)	–	–
Other comprehensive income (loss), net of income taxes	(7,844)	(2,049)	596
Comprehensive income	\$ 467,758	\$ 443,325	\$ 328,034
Earnings per share:			
Basic	\$ 15.30	\$ 14.35	\$ 10.58
Diluted	\$ 15.10	\$ 14.13	\$ 10.47
Weighted average common shares outstanding:			
Basic	31,092	31,038	30,957
Diluted	31,494	31,512	31,281

See accompanying notes to consolidated financial statements.

**CHIPOTLE MEXICAN GRILL, INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**(in thousands)**

	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount			
Balance, December 31, 2012	34,912	\$ 349	\$ 816,612	3,819	\$ (521,518)	\$ 949,459	\$ 1,024	\$1,245,926
Stock-based compensation			64,781					64,781
Stock plan transactions and other	333	3	97					100
Excess tax benefit on stock-based compensation, net of utilization of \$29			38,350					38,350
Acquisition of treasury stock				393	(138,903)			(138,903)
Net income						327,438		327,438
Other comprehensive income (loss), net of income tax							596	596
Balance, December 31, 2013	35,245	\$ 352	\$ 919,840	4,212	\$ (660,421)	\$1,276,897	\$ 1,620	\$1,538,288
Stock-based compensation			97,618					97,618
Stock plan transactions and other	149	2	(193)					(191)
Excess tax benefit on stock-based compensation			21,667					21,667
Acquisition of treasury stock				155	(88,338)			(88,338)
Net income						445,374		445,374
Other comprehensive income (loss), net of income tax							(2,049)	(2,049)
Balance, December 31, 2014	35,394	\$ 354	\$1,038,932	4,367	\$ (748,759)	\$ 1,722,271	\$ (429)	\$2,012,369
Stock-based compensation			59,465					59,465
Stock plan transactions and other	396	4	(211)					(207)
Excess tax benefit on stock-based compensation			74,442					74,442
Acquisition of treasury stock				839	(485,853)			(485,853)
Net income						475,602		475,602
Other comprehensive income (loss), net of income tax							(7,844)	(7,844)
Balance, December 31, 2015	35,790	\$ 358	\$ 1,172,628	5,206	\$ (1,234,612)	\$2,197,873	\$ (8,273)	\$2,127,974

See accompanying notes to consolidated financial statements.

# PART II

(continued)

## CHIPOTLE MEXICAN GRILL, INC. CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands)

	Year ended December 31,		
	2015	2014	2013
<b>Operating activities</b>			
Net income	\$ 475,602	\$ 445,374	\$ 327,438
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	130,368	110,474	96,054
Deferred income tax (benefit) provision	11,666	(20,671)	2,103
Loss on disposal of assets	13,194	6,976	6,751
Bad debt allowance	(23)	9	19
Stock-based compensation expense	57,911	96,440	63,657
Excess tax benefit on stock-based compensation	(74,442)	(21,667)	(38,379)
Other	582	104	507
Changes in operating assets and liabilities:			
Accounts receivable	(3,504)	(10,966)	(7,238)
Inventory	262	(2,307)	(1,950)
Prepaid expenses and other current assets	(5,259)	(658)	(6,806)
Other assets	(5,619)	1,071	(1,354)
Accounts payable	19,525	2,168	2,052
Accrued liabilities	(7,440)	35,019	12,020
Income tax payable/receivable	32,756	8,831	44,334
Deferred rent	32,911	27,025	25,715
Other long-term liabilities	4,826	4,845	3,857
Net cash provided by operating activities	683,316	682,067	528,780
<b>Investing activities</b>			
Purchases of leasehold improvements, property and equipment	(257,418)	(252,590)	(199,926)
Purchases of investments	(559,372)	(521,004)	(387,639)
Maturities of investments	352,650	254,750	159,250
Net cash used in investing activities	(464,140)	(518,844)	(428,315)
<b>Financing activities</b>			
Acquisition of treasury stock	(460,675)	(88,338)	(138,903)
Excess tax benefit on stock-based compensation	74,442	21,667	38,379
Stock plan transactions and other financing activities	(207)	(66)	173
Net cash used in financing activities	(386,440)	(66,737)	(100,351)
Effect of exchange rate changes on cash and cash equivalents	(4,196)	(224)	536
Net change in cash and cash equivalents	(171,460)	96,262	650
Cash and cash equivalents at beginning of year	419,465	323,203	322,553
Cash and cash equivalents at end of year	\$ 248,005	\$ 419,465	\$ 323,203
<b>Supplemental disclosures of cash flow information</b>			
Income taxes paid	\$ 248,547	\$ 280,687	\$ 160,973
Increase (decrease) in purchases of leasehold improvements, property and equipment accrued in accounts payable and accrued liabilities	\$ (2,870)	\$ 9,424	\$ (1,736)
Increase in acquisition of treasury stock accrued in accrued liabilities	\$ 25,178	\$ -	\$ -

See accompanying notes to consolidated financial statements.

## CHIPOTLE MEXICAN GRILL, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollar and share amounts in thousands,  
unless otherwise specified)

#### 1. Description of Business and Summary of Significant Accounting Policies

Chipotle Mexican Grill, Inc., a Delaware corporation, together with its subsidiaries (collectively the "Company") develops and operates fast-casual, fresh Mexican food restaurants. As of December 31, 2015, the Company operated 1,971 Chipotle restaurants throughout the United States. The Company also has 11 restaurants in Canada, seven in England, four in France, and one in Germany. Further, the Company operated 13 ShopHouse Southeast Asian Kitchen restaurants, serving fast-casual, Asian inspired cuisine, as well as is an investor in a consolidated entity that owned and operated three Pizzeria Locale restaurants, a fast casual pizza concept. The Company manages its operations based on nine regions and has aggregated its operations to one reportable segment.

#### *Principles of Consolidation and Basis of Presentation*

The consolidated financial statements include the accounts of the Company, including wholly and majority owned subsidiaries. All intercompany balances and transactions have been eliminated.

#### *Management Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates under different assumptions or conditions.

#### *Revenue Recognition*

Revenue from restaurant sales is recognized when payment is tendered at the point of sale. The Company reports revenue net of sales and use taxes collected from customers and remitted to governmental taxing authorities.

The Company sells gift cards which do not have an expiration date and it does not deduct non-usage fees from outstanding gift card balances. The Company recognizes revenue from gift cards when: (i) the gift card is redeemed

by the customer; or (ii) the Company determines the likelihood of the gift card being redeemed by the customer is remote (gift card breakage) and there is not a legal obligation to remit the unredeemed gift cards to the relevant jurisdiction. The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. Gift card breakage is recognized in revenue as the gift cards are used on a pro rata basis over a six month period beginning at the date of the gift card sale and is included in revenue in the consolidated statement of income and comprehensive income. The Company has determined that 4% of gift card sales will not be redeemed and will be retained by the Company. Breakage recognized during the years ended December 31, 2015, 2014 and 2013 was \$4,226, \$3,146 and \$1,976, respectively.

#### *Cash and Cash Equivalents*

The Company considers all highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents. The Company maintains cash and cash equivalent balances with financial institutions that exceed federally-insured limits. The Company has not experienced any losses related to these balances and believes the risk to be minimal.

#### *Accounts Receivable*

Accounts receivable primarily consists of receivables from third party gift card distributors, tenant improvement receivables, payroll-related tax receivables, vendor rebates, and receivables arising from the normal course of business. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable based on a specific review of account balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recoverability is considered remote.

#### *Inventory*

Inventory, consisting principally of food, beverages, and supplies, is valued at the lower of first-in, first-out cost or market. Certain key ingredients (beef, pork, chicken, beans, rice, sour cream, cheese, and tortillas) are purchased from a small number of suppliers.

#### *Investments*

Investments classified as "trading" securities are carried at fair value with any unrealized gain or loss being recorded in the consolidated statement of income and comprehensive income. Investments classified as "available-for-sale" are carried at fair market value with unrealized gains and

## PART II (continued)

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losses, net of tax, included as a component of other comprehensive income (loss). Held-to-maturity securities are carried at amortized cost. The Company recognizes impairment charges on its investments in the consolidated statement of income and comprehensive income when management believes the decline in the fair value of the investment is other-than-temporary.

### **Leasehold Improvements, Property and Equipment**

Leasehold improvements, property and equipment are recorded at cost. Internal costs directly associated with the acquisition, development and construction of a restaurant are capitalized and were \$9,554, \$7,756 and \$9,024 for the years ended December 31, 2015, 2014 and 2013, respectively. Expenditures for major renewals and improvements are capitalized while expenditures for minor replacements, maintenance and repairs are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term, which generally includes reasonably assured option periods, or the estimated useful lives of the assets. Upon retirement or disposal of assets, the accounts are relieved of cost and accumulated depreciation and the related gain or loss, if any, is reflected in loss on disposal of assets in the consolidated statement of income and comprehensive income.

At least annually, the Company evaluates, and adjusts when necessary, the estimated useful lives of leasehold improvements, property and equipment. The changes in estimated useful lives did not have a material impact on depreciation in any period. The estimated useful lives are:

Leasehold improvements and buildings	3-20 years
Furniture and fixtures	4-7 years
Equipment	3-10 years

### **Goodwill**

Goodwill represents the excess of cost over fair value of net assets of the business acquired. Goodwill is not subject to amortization, but instead is tested for impairment at least annually, and the Company is required to record any necessary impairment adjustments. Impairment is measured as the excess of the carrying value over the fair value of the goodwill. Based on the Company's analysis, no impairment charges were recognized on goodwill for the years ended December 31, 2015, 2014 and 2013.

### **Other Assets**

Other assets consist primarily of restricted cash assets of \$22,572 and \$19,889 as of December 31, 2015 and 2014,

respectively, a rabbi trust as described further in Note 7, "Employee Benefit Plans," transferable liquor licenses which are carried at the lower of fair value or cost, and rental deposits related to leased properties. Restricted cash assets are primarily insurance related restricted trust assets.

### **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purpose of reviewing restaurant assets to be held and used for potential impairment, assets are grouped together at the market level, or in the case of a potential relocation or closure, at the restaurant level. The Company manages its restaurants as a group with significant common costs and promotional activities; as such, an individual restaurant's cash flows are not generally independent of the cash flows of others in a market. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2015, 2014 and 2013, an aggregate impairment charge of \$6,675, \$0 and \$1,220, respectively, was recognized in loss on disposal of assets in the consolidated statement of income and comprehensive income. During the year ended December 31, 2015, the impairment charges resulted from an internally developed software program that the Company chose not to implement and the related hardware, the discontinued use of certain kitchen equipment from the Company's restaurants, as well as restaurant relocations. Impairment charges for software and equipment write-offs were equal to the net book value of assets on the balance sheet. Fair value of relocated restaurants was determined using Level 3 inputs (as described below under "Fair Value Measurements") based on a discounted cash flows method through the estimated date of closure.

### **Income Taxes**

The Company recognizes deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of its assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. The deferred income tax impacts of investment tax credits are recognized as an immediate adjustment to income tax

expense. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, the Company provides a corresponding valuation allowance against the deferred tax asset. When it is more likely than not that a position will be sustained upon examination by a tax authority that has full knowledge of all relevant information, the Company measures the amount of tax benefit from the position and records the largest amount of tax benefit that is greater than 50% likely of being realized after settlement with a tax authority. The Company's policy is to recognize interest to be paid on an underpayment of income taxes in interest expense and any related statutory penalties in the provision for income taxes in the consolidated statement of income and comprehensive income.

### **Restaurant Pre-Opening Costs**

Pre-opening costs, including rent, wages, benefits and travel for the training and opening teams, food and other restaurant operating costs, are expensed as incurred prior to a restaurant opening for business.

### **Insurance Liability**

The Company maintains various insurance policies including workers' compensation, employee health, general liability, automobile, and property damage. Pursuant to these policies, the Company is responsible for losses up to certain limits and is required to estimate a liability that represents the ultimate exposure for aggregate losses below those limits. This liability is based on management's estimates of the ultimate costs to be incurred to settle known claims and, where applicable, claims not reported as of the balance sheet date. The estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions, and economic conditions. If actual trends differ from the estimates, the financial results could be impacted. As of December 31, 2015 and 2014, \$28,391 and \$25,596, respectively, of the estimated liability was included in accrued payroll and benefits and \$11,898 and \$8,359, respectively, was included in accrued liabilities in the consolidated balance sheet.

### **Advertising and Marketing Costs**

Advertising and marketing costs are expensed as incurred and totaled \$69,257, \$57,290 and \$44,389 for the years ended December 31, 2015, 2014 and 2013, respectively. Advertising and marketing costs are included in other operating costs in the consolidated statement of income and comprehensive income.

### **Rent**

Rent expense for the Company's leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. The lease term is the lesser of 20 years inclusive of reasonably assured renewal periods, or the lease term. The lease term begins when the Company has the right to control the use of the property, which is typically before rent payments are due under the lease. The difference between the rent expense and rent paid is recorded as deferred rent in the consolidated balance sheet. Pre-opening rent is included in pre-opening costs in the consolidated income statement. Tenant incentives used to fund leasehold improvements are recorded in deferred rent and amortized as reductions of rent expense over the term of the lease.

Additionally, certain of the Company's operating leases contain clauses that provide additional contingent rent based on a percentage of sales greater than certain specified target amounts. The Company recognizes contingent rent expense provided the achievement of that target is considered probable.

### **Fair Value of Financial Instruments**

The carrying value of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of their short-term nature.

### **Fair Value Measurements**

Fair value is the price the Company would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For assets and liabilities recorded or disclosed at fair value on a recurring basis, the Company determines fair value based on the following:

- Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.



# PART II

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## **Foreign Currency Translation**

The Company's international operations generally use the local currency as the functional currency. Assets and liabilities are translated at exchange rates in effect as of the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation adjustments are recorded as a separate component of other comprehensive income (loss) in the consolidated statement of income and comprehensive income.

## **Recently Issued Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and IFRS. The pronouncement is effective for reporting periods beginning after December 15, 2017. The expected adoption method of ASU 2014-09 is being evaluated by the Company and the adoption is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718)." The pronouncement was issued to clarify the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The pronouncement is effective for reporting periods beginning after December 15, 2015. The adoption of ASU 2014-12 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)." The pronouncement was issued to provide guidance concerning accounting for fees in a cloud computing arrangement. The pronouncement is effective for reporting periods beginning after December 15, 2015. The adoption of ASU 2015-05 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330)." The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016.

The adoption of ASU 2015-11 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company's fiscal year beginning January 1, 2018. The expected adoption method of ASU 2016-01 is being evaluated by the Company and the adoption is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

## **Recently Adopted Accounting Standard**

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes" which requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. Prior to the issuance of the standard, deferred tax liabilities and assets were required to be separately classified into a current amount and a noncurrent amount in the balance sheet. The new accounting guidance represents a change in accounting principle and the standard is required to be adopted in annual periods beginning after December 15, 2016. Early adoption is permitted and the Company elected to early adopt this guidance as of December 31, 2015 and to apply the guidance retrospectively to all periods presented. Accordingly, the Company reclassified the prior period amount of \$18,968 related to its deferred tax asset from current to noncurrent, resulting in an offset to the noncurrent deferred income tax liability for the same amount for that period, according to the requirement to offset and present as a single amount. Because the application of this guidance affects classification only, such reclassifications did not have a material effect on the Company's consolidated financial position or results of operations.

## 2. Supplemental Financial Information

Leasehold improvements, property and equipment were as follows:

	December 31,	
	2015	2014
Land	\$ 13,052	\$ 11,062
Leasehold improvements and buildings	1,419,418	1,267,108
Furniture and fixtures	142,825	127,260
Equipment	362,800	315,230
	1,938,095	1,720,660
Accumulated depreciation	(720,875)	(613,676)
	\$ 1,217,220	\$ 1,106,984

Accrued liabilities were as follows:

	December 31,	
	2015	2014
Gift card liability	\$ 51,055	\$ 48,105
Transaction tax payable	15,634	22,929
Treasury stock liability	25,178	0
Other accrued expenses	37,408	31,169
	\$129,275	\$102,203

## 3. Investments

As of December 31, 2015, the Company's investments, consisting of U.S. treasury notes with maturities up to approximately two years, were classified as available-for-sale. As of December 31, 2014, the Company's investments consisted of U.S. treasury notes and CDARS, certificates of deposit placed through an account registry service, with maturities up to approximately two years, and were classified as held-to-maturity. Fair market value of U.S. treasury notes is measured on a recurring basis based on Level 1 inputs and fair market value of CDARS is measured on a recurring basis based on Level 2 inputs (level inputs are described in Note 1 under "Fair Value Measurements").

The Company designates the appropriate classification of its investments at the time of purchase based upon the intended holding period. During the year ended December 31, 2015, the Company transferred the classification of its investments from held-to-maturity to available-for-sale due to anticipated liquidity needs related to increased repurchases of shares of the Company's common stock. The carrying value of held-to-maturity securities transferred to available-for-sale during the year ended December 31, 2015 was \$1,040,850 and the fair

market value of those securities was determined to be \$1,038,138, resulting in an unrealized holding loss of \$2,712. As a result, the Company recorded \$2,468 (\$1,522, net of tax) of unrealized holding losses in other comprehensive income (loss), and an other-than-temporary impairment charge of \$244 in interest and other income (expense), in the consolidated statement of income and comprehensive income. The Company determined its investments approximated fair value as of December 31, 2014, and no impairment charges were recognized on the Company's investments for the years ended December 31, 2014 and 2013.

The Company has elected to fund certain deferred compensation obligations through a rabbi trust, the assets of which are designated as trading securities, as described further in Note 7. "Employee Benefit Plans."

## 4. Income Taxes

The components of the provision for income taxes are as follows:

	Year ended December 31,		
	2015	2014	2013
Current tax:			
U.S. Federal	\$244,470	\$ 248,219	\$ 165,731
U.S. State	37,957	41,225	39,136
Foreign	172	156	63
	282,599	289,600	204,930
Deferred tax:			
U.S. Federal	11,000	(13,890)	5,238
U.S. State	699	(6,740)	(3,105)
Foreign	(2,288)	(3,075)	(1,330)
	9,411	(23,705)	803
Valuation allowance	2,255	3,034	1,300
Provision for income taxes	\$294,265	\$268,929	\$207,033

Actual taxes paid for each tax period were less than the current tax expense due to the excess tax benefit on stock-based compensation of \$74,442, \$21,667, and \$38,379 during the years ended December 31, 2015, 2014, and 2013, respectively.

## PART II

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The effective tax rate differs from the statutory tax rates as follows:

	Year ended December 31,		
	2015	2014	2013
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income tax, net of related federal income tax benefit	3.6	3.7	4.2
Other	(0.4)	(1.1)	(0.5)
Effective income tax rate	38.2%	37.6%	38.7%

In 2015 and 2014, the effective tax rate was lower than 2013 because there was a decrease in the state tax rate. Additionally, 2014 included a benefit from filing the 2013 tax returns, which included a non-recurring change in the estimate of usable employer credits.

Deferred income tax liabilities are taxes the Company expects to pay in future periods. Similarly, deferred income tax assets are recorded for expected reductions in taxes payable in future periods. Deferred income taxes arise because of the differences in the book and tax bases of certain assets and liabilities. Deferred income tax liabilities and assets consist of the following:

	December 31,	
	2015	2014 (as adjusted)
Long-term deferred income tax liability:		
Leasehold improvements, property and equipment	\$192,125	\$175,808
Goodwill and other assets	1,696	1,519
Prepaid assets and other	8,297	6,091
Total long-term deferred income tax liability	202,118	183,418
Long-term deferred income tax asset:		
Deferred rent	57,716	52,147
Gift card liability	3,171	1,451
Capitalized transaction costs	502	503
Stock-based compensation and other employee benefits	83,058	87,713
Foreign net operating loss carry-forwards	11,407	8,618
State credits	4,783	4,281
Allowances, reserves and other	18,577	14,656
Valuation allowance	(9,401)	(7,512)
Total long-term deferred income tax asset	169,813	161,857
Net long-term deferred income tax liability	\$ 32,305	\$ 21,561

As described in Note 1, the Company elected to early adopt FASB guidance ASU 2015-17 "Income Taxes" as of December 31, 2015 and to apply the guidance retrospectively to all periods presented related to the classification of current and noncurrent deferred tax assets and liabilities. Accordingly, the Company reclassified the prior period amount of \$18,968 related to its net deferred tax asset from current to noncurrent, resulting in an offset to the noncurrent deferred income tax liability for the same amount for that period.

The unrecognized tax benefits are as follows:

	2015	2014	2013
Beginning of year	1,342	–	–
Increase resulting from prior year tax position	402	–	–
Increase resulting from current year tax position	2,032	1,342	–
End of year	\$3,776	\$1,342	\$–

The Company is open to federal and state tax audits until the applicable statutes of limitations expire. Tax audits by their very nature are often complex and can require several years to complete. The Company is no longer subject to U.S. federal tax examinations by tax authorities for tax years before 2012. For the majority of states where the Company has a significant presence, it is no longer subject to tax examinations by tax authorities for tax years before 2012. Some of the Company's foreign net operating losses began expiring in 2015.

## 5. Shareholders' Equity

Through December 31, 2015, the Company announced authorizations by its Board of Directors of the expenditure of an aggregate of up to \$1,300,000 to repurchase shares of the Company's common stock. The Company announced that its Board of Directors authorized the expenditure of up to an additional \$300,000 on January 6, 2016 and \$300,000 on February 2, 2016 to repurchase shares of its common stock. Under the remaining repurchase authorization, shares may be purchased from time to time in open market transactions, subject to market conditions.

The shares of common stock repurchased under authorized programs were 839, 154 and 336 for a total cost of \$485,841, \$87,996 and \$109,987 during 2015, 2014 and 2013, respectively. As of December 31, 2015, \$116,394 was available to be repurchased under the authorized programs. The Company repurchased 609 shares of common stock for a total cost of \$270,013 from January 1, 2016 through February 3, 2016 under programs announced on December 4, 2015 and January 6, 2016. The shares repurchased are being held in treasury until such time as they are reissued or retired, at the discretion of the Board of Directors.

During 2015, 2014, and 2013, shares of common stock were netted and surrendered as payment for minimum statutory tax withholding obligations in connection with the exercise and vesting of outstanding stock awards. Shares surrendered by the participants in accordance with the

applicable award agreements and plan are deemed repurchased by the Company but are not part of publicly announced share repurchase programs. For the years ended December 31, 2015, 2014, and 2013, the Company's repurchases in connection with such netting and surrender were less than 1 share, 1 share, and 57 shares for a total cost of \$12, \$342, and \$28,916 respectively.

## 6. Stock Based Compensation

The Company issues shares pursuant to the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan (the "2011 Incentive Plan"), approved at the annual shareholders' meeting on May 13, 2015. Shares issued pursuant to awards granted prior to the 2011 Incentive Plan were issued subject to previous stock plans. For purposes of counting the shares remaining available under the 2011 Incentive Plan, each share issuable pursuant to outstanding full value awards, such as restricted stock units and performance shares, will count as two shares used, whereas each share underlying a stock appreciation right or stock option will count as one share used. Under the 2011 Incentive Plan, 5,560 shares of common stock have been authorized and reserved for issuance to eligible participants, of which 2,988 represent shares that were authorized for issuance but not issued or subject to outstanding awards at December 31, 2015. The 2011 Incentive Plan is administered by the Compensation Committee of the Board of Directors, which has the authority to select the individuals to whom awards will be granted or to delegate its authority under the plan to the Company's executive officers to make grants to non-executive officer level employees, to determine the type of awards and when the awards are to be granted, the number of shares to be covered by each award, the vesting schedule and all other terms and conditions of the awards. The exercise price for stock awards granted under the 2011 Incentive Plan cannot be less than fair market value at the date of grant.

Stock only stock appreciation rights ("SOSARs") generally vest equally over two and three years and expire after seven years. Stock-based compensation expense is generally recognized on a straight-line basis for each separate vesting portion. Compensation expense related to employees eligible to retire and retain full rights to the awards is recognized over six months which coincides with the notice period. The Company has also granted SOSARs and stock awards with performance vesting conditions and/or market vesting conditions. Compensation expense on SOSARs subject to performance conditions is recognized over the longer of the estimated performance goal attainment period or time vesting period. Compensation

## PART II

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expense on stock awards subject to performance conditions, which is based on the quantity of awards the Company has determined are probable of vesting, is recognized over the longer of the estimated performance goal attainment period or time vesting period.

Compensation expense is recognized ratably for awards subject to market conditions regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

Stock-based compensation recognized as capitalized development is included in leasehold improvements, property and equipment in the consolidated balance sheet. The following table sets forth stock-based compensation expense, including SOSARs and stock awards:

	Year ended December 31,		
	2015	2014	2013
Stock-based compensation expense	\$59,465	\$ 97,618	\$ 64,781
Stock-based compensation expense, net of tax	36,666	60,084	39,465
Stock-based compensation expense recognized as capitalized development	1,554	1,178	1,124

The tables below summarize the option and SOSAR activity under the stock incentive plans (in thousands, except years and per share data):

	2015		2014		2013	
	Shares	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
Outstanding, beginning of year	2,087	\$395.46	1,690	\$ 312.44	1,449	\$274.92
Granted	379	\$ 659.12	764	\$545.66	672	\$ 320.21
Exercised	(716)	\$ 297.25	(315)	\$ 310.32	(369)	\$ 176.23
Forfeited	(56)	\$554.73	(52)	\$ 419.74	(62)	\$329.76
Outstanding, end of year	1,694	\$490.70	2,087	\$395.46	1,690	\$ 312.44

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Years of Contractual Life	Aggregate Intrinsic Value
Outstanding as of December 31, 2015	1,694	\$490.70	4.9	\$92,773
Vested and expected to vest as of December 31, 2015	1,640	\$ 486.10	4.8	\$92,622
Exercisable as of December 31, 2015	321	\$ 339.72	3.5	\$ 45,112

During the years ended December 31, 2014, and 2013, the Company granted SOSARs that include performance conditions, in amounts totaling 220 and 191 shares, respectively. No SOSARs that include performance conditions were granted during 2015. As of December 31, 2015, 426 SOSARs that include performance conditions were outstanding, of which 316 awards had met the performance conditions. In addition to time vesting described above, the shares vest upon achieving a targeted cumulative cash flow from operations. The total intrinsic value of options and SOSARs exercised during the years ended December 31, 2015, 2014 and 2013 was \$260,466, \$88,245 and \$91,178. Unearned compensation as of December 31, 2015 was \$40,298 for SOSAR awards, and is expected to be recognized over a weighted average period of 1.5 years.

The following table reflects the average assumptions utilized in the Black-Scholes option-pricing model to value SOSAR awards granted for each year:

	2015	2014	2013
Risk-free interest rate	1.1%	0.8%	0.5%
Expected life (years)	3.4	3.4	3.4
Expected dividend yield	0.0%	0.0%	0.0%
Volatility	30.8%	33.3%	35.4%
Weighted-average Black-Scholes fair value per share at date of grant	\$156.32	\$136.18	\$82.51

The Company has not paid dividends to date and does not plan to pay dividends in the near future. The risk-free interest rate is based upon U.S. Treasury rates for instruments with similar terms. The volatility assumption was based on the Company's historical data and implied volatility, and the expected life assumptions were based on the Company's historical data.

A summary of non-vested stock award activity under the stock incentive plans is as follows (in thousands, except per share data):

	2015		2014		2013	
	Shares	Grant Date Fair Value Per Share	Shares	Grant Date Fair Value Per Share	Shares	Grant Date Fair Value Per Share
Outstanding, beginning of year	70	\$525.60	71	\$520.27	120	\$218.34
Granted	47	\$785.32	2	\$495.92	68	\$527.45
Vested	(1)	\$413.07	(2)	\$284.11	(117)	\$215.76
Forfeited	–	\$534.55	(1)	\$410.55	–	\$–
Outstanding, end of year	116	\$511.88	70	\$525.60	71	\$520.27

At December 31, 2015, 106 of the outstanding non-vested stock awards were subject to performance and/or market conditions, in addition to service vesting conditions. During the year ended December 31, 2013, the Company granted 66 stock awards that were subject to both service and performance vesting conditions ("the 2013 stock awards"). The quantity of shares that ultimately vest is determined based on the cumulative cash flow from operations reached during the three year period ending on September 30, 2016. The quantity of shares awarded ranges from 0% to 100% based on the level of achievement of the performance conditions. If the cumulative cash flow from operations during the three year period does not reach a specified level, no shares will vest. During the year ended December 31, 2015, the Company reduced its estimate of the number of the 2013 stock awards that it expects will vest, which resulted in a cumulative adjustment to expense of \$10,851 (\$6,691 net of tax as well as \$.22 to basic and \$.21 diluted earnings per share).

During the year ended December 31, 2015, the Company awarded 40 performance shares that were subject to service, performance, and market vesting conditions ("the 2015 stock awards"). The quantity of shares that will ultimately vest is determined based on Chipotle's relative performance versus a restaurant industry peer group in the annual average of: revenue growth, net income growth, and total shareholder return. The quantity of shares awarded ranges from 0% to 200% based on the level of achievement of the performance and market conditions. If minimum targets are not met, then no shares will vest. Each performance and market measure will be weighted equally, and performance is calculated over a three year period beginning January 1, 2015 through December 31, 2017. During the year ended December 31, 2015, the Company reduced its estimate of the number of the 2015 stock awards that it expects will vest, which resulted in a cumulative adjustment to expense of \$1,344 (\$829 net of tax and \$.03 to basic and diluted earnings per share).



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(continued)

The Company's measurement of the grant date fair value of the 2015 stock awards included using a Monte Carlo simulation model, which incorporates into the fair-value determination the possibility that the market condition may not be satisfied, using the following assumptions:

	2015
Risk-free interest rate	1.0%
Expected life (years)	2.9
Expected dividend yield	0.0%
Volatility	33.7%

Unearned compensation as of December 31, 2015 was \$19,511 for non-vested stock awards the Company has determined are probable of vesting, and is expected to be recognized over a weighted average period of 1.6 years. The fair value of shares earned as of the vesting date during the year ended December 31, 2015, 2014, and 2013 was \$634, \$783, and \$58,941, respectively.

### 7. Employee Benefit Plans

The Company maintains the Chipotle Mexican Grill 401(k) Plan (the "401(k) Plan"). The Company matches 100% of the first 3% of pay contributed by each eligible employee and 50% on the next 2% of pay contributed. Employees become eligible to receive matching contributions after one year of service with the Company. For the years ended December 31, 2015, 2014, and 2013, Company matching contributions totaled approximately \$4,995, \$3,881 and \$2,644, respectively.

The Company also offers an employee stock purchase plan ("ESPP"). Employees become eligible to contribute after one year of service with the Company and may contribute up to 15% of their base earnings, subject to an annual maximum dollar amount, toward the monthly purchase of the Company's common stock. Under the ESPP, 250 shares of common stock have been authorized and reserved for issuances to eligible employees, of which 248 represent shares that were authorized for issuance but not issued at December 31, 2015. For each of the years ended December 31, 2015, 2014, and 2013, the number of shares issued under the ESPP were less than 1.

The Company also maintains the Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan (the "Deferred Plan") which covers eligible employees of the Company. The Deferred Plan is a non-qualified plan that allows participants to make tax-deferred contributions that cannot be made under the 401(k) Plan because of Internal Revenue Service limitations. Participants' earnings on contributions

made to the Deferred Plan fluctuate with the actual earnings and losses of a variety of available investment choices selected by the participant. Total liabilities under the Deferred Plan as of December 31, 2015 and 2014 were \$18,331 and \$16,147, respectively, and are included in other long-term liabilities in the consolidated balance sheet. The Company matches 100% of the first 3% of pay contributed by each eligible employee and 50% on the next 2% of pay contributed once the 401(k) contribution limits are reached. For the years ended December 31, 2015, 2014, and 2013, the Company made deferred compensation matches of \$617, \$536 and \$201 respectively, to the Deferred Plan.

The Company has elected to fund its deferred compensation obligations through a rabbi trust. The rabbi trust is subject to creditor claims in the event of insolvency, but the assets held in the rabbi trust are not available for general corporate purposes. Amounts in the rabbi trust are invested in mutual funds, as selected by participants, which are designated as trading securities and carried at fair value, and are included in other assets in the consolidated balance sheet. Fair value of mutual funds is measured using Level 1 inputs (quoted prices for identical assets in active markets), and the fair values of the investments in the rabbi trust were \$18,331 and \$16,147 as of December 31, 2015 and 2014, respectively. The Company records trading gains and losses in general and administrative expenses in the consolidated statement of income and comprehensive income, along with the offsetting amount related to the increase or decrease in deferred compensation to reflect its exposure of the Deferred Plan liability. The following table sets forth unrealized gains and losses on investments held in the rabbi trust:

	Year ended December 31,		
	2015	2014	2013
Unrealized gains (losses) on investments held in rabbi trust	\$(571)	\$184	\$722

### 8. Leases

The Company generally operates its restaurants in leased premises. Lease terms for traditional shopping center or building leases generally include combined initial and option terms of 20-25 years. Ground leases generally include combined initial and option terms of 30-40 years. The option terms in each of these leases are typically in five-year increments. Typically, the lease includes rent escalation terms every five years including fixed rent escalations, escalations based on inflation indexes, and fair market value adjustments. Certain leases contain contingent rental provisions based upon the sales of the

underlying restaurants. The leases generally provide for the payment of common area maintenance, property taxes, insurance and various other use and occupancy costs by the Company. In addition, the Company is the lessee under non-cancelable leases covering certain offices.

Future minimum lease payments required under existing operating leases as of December 31, 2015 are as follows:

2016	\$ 239,683
2017	241,366
2018	244,698
2019	245,251
2020	239,933
Thereafter	2,257,081
Total minimum lease payments	\$3,468,012

Minimum lease payments have not been reduced by minimum sublease rentals of \$6,217 due in the future under non-cancelable subleases.

Rental expense consists of the following:

	Year ended December 31,		
	2015	2014	2013
Minimum rentals	\$227,602	\$200,575	\$178,395
Contingent rentals	\$ 4,542	\$ 4,616	\$ 2,719
Sublease rental income	\$ (1,879)	\$ (1,838)	\$ (1,726)

The Company has six sales and leaseback transactions. These transactions do not qualify for sale leaseback accounting because of the Company's deemed continuing involvement with the buyer-lessor due to fixed price renewal options, which results in the transaction being recorded under the financing method. Under the financing method, the assets remain on the consolidated balance sheet and the proceeds from the transactions are recorded as a financing liability. A portion of lease payments are applied as payments of deemed principal and imputed interest. The deemed landlord financing liability was \$3,060 and \$3,233 as of December 31, 2015, and 2014, respectively, with the current portion of the liability included in accrued liabilities, and the remaining portion included in other liabilities in the consolidated balance sheet.

## 9. Earnings Per Share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share ("diluted EPS") is

calculated using income available to common shareholders divided by diluted weighted-average shares of common stock outstanding during each period. Potentially dilutive securities include shares of common stock underlying SOSARs and non-vested stock awards (collectively "stock awards"). Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Stock awards are excluded from the calculation of diluted EPS in the event they are subject to performance conditions or antidilutive. The following stock awards were excluded from the calculation of diluted EPS:

	Year ended December 31,		
	2015	2014	2013
Stock awards subject to performance conditions	266	385	381
Stock awards that were antidilutive	289	232	393
Total stock awards excluded from diluted earnings per share	555	617	774

The following table sets forth the computations of basic and diluted earnings per share:

	Year ended December 31,		
	2015	2014	2013
Net income	\$475,602	\$445,374	\$327,438
Shares:			
Weighted average number of common shares outstanding	31,092	31,038	30,957
Dilutive stock awards	402	474	324
Diluted weighted average number of common shares outstanding	31,494	31,512	31,281
Basic earnings per share	\$ 15.30	\$ 14.35	\$ 10.58
Diluted earnings per share	\$ 15.10	\$ 14.13	\$ 10.47

## 10. Commitments and Contingencies

### Purchase Obligations

The Company enters into various purchase obligations in the ordinary course of business, generally of short term nature. Those that are binding primarily relate to commitments for food purchases and supplies, amounts owed under contractor and subcontractor agreements,

## PART II (continued)

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orders submitted for equipment for restaurants under construction, and marketing initiatives and corporate sponsorships.

### **Litigation**

#### *Receipt of Grand Jury Subpoenas*

In December 2015, the Company was served with a Federal Grand Jury Subpoena from the U.S. District Court for the Central District of California in connection with an official criminal investigation being conducted by the U.S. Attorney's Office for the Central District of California, in conjunction with the U.S. Food and Drug Administration's Office of Criminal Investigations. The subpoena required the Company to produce a broad range of documents related to a Chipotle restaurant in Simi Valley, California, that experienced an isolated norovirus incident during August 2015. On January 28, 2016, the Company was served with an additional subpoena broadening the investigation and requiring the production of documents and information related to company-wide food safety matters dating back to January 1, 2013. The Company has been informed that this subpoena supersedes the subpoena served in December 2015, which has been withdrawn. The Company intends to fully cooperate in the investigation. It is not possible at this time to determine whether the Company will incur, or to reasonably estimate the amount of, any fines or penalties in connection with the investigation pursuant to which the subpoena was issued.

#### *Shareholder Class Action*

On January 8, 2016, Susie Ong filed a complaint in the U.S. District Court for the Southern District of New York on behalf of a purported class of purchasers of shares of the Company's common stock between February 4, 2015 and January 5, 2016. The complaint purports to state claims against the Company, each of its co-Chief Executive Officers and its Chief Financial Officer under Sections 10(b) and 20(a) of the Exchange Act and related rules, based on the Company's alleged failure during the claimed class period to disclose material information about the Company's quality controls and safeguards in relation to consumer and employee health. The complaint asserts that those failures and related public statements were false and misleading and that, as a result, the market price of the Company's stock was artificially inflated during the claimed class period. The complaint seeks damages on behalf of the purported class in an unspecified amount, interest, and an award of reasonable attorneys' fees, expert fees and other costs. The Company intends to defend this case vigorously, but it is not possible at this time to reasonably estimate the outcome of or any potential liability from the case.

#### *Notices of Inspection of Work Authorization Documents and Related Civil and Criminal Investigations*

Following an inspection during 2010 by the U.S. Department of Homeland Security, or DHS, of the work authorization documents of the Company's restaurant employees in Minnesota, the Immigration and Customs Enforcement arm of DHS, or ICE, issued to the Company a Notice of Suspect Documents identifying a large number of employees who, according to ICE and notwithstanding the Company's review of work authorization documents for each employee at the time they were hired, appeared not to be authorized to work in the U.S. The Company approached each of the named employees to explain ICE's determination and afforded each employee an opportunity to confirm the validity of their original work eligibility documents, or provide valid work eligibility documents. Employees who were unable to provide valid work eligibility documents were terminated in accordance with the law. In December 2010, the Company was also requested by DHS to provide the work authorization documents of restaurant employees in the District of Columbia and Virginia, and the Company provided the requested documents in January 2011. The Company subsequently received requests from the office of the U.S. Attorney for the District of Columbia for work authorization documents covering all of the Company's employees since 2007, plus employee lists and other documents concerning work authorization. The Company believes its practices with regard to the work authorization of its employees, including the review and retention of work authorization documents, are in compliance with applicable law. However, the termination of large numbers of employees in a short period of time does disrupt restaurant operations and results in a temporary increase in labor costs as new employees are trained.

In May 2012, the U.S. Securities and Exchange Commission notified the Company that it is conducting a civil investigation of the Company's compliance with employee work authorization verification requirements and its related disclosures and statements, and the office of the U.S. Attorney for the District of Columbia advised the Company that its investigation has broadened to include a parallel criminal and civil investigation of the Company's compliance with federal securities laws. The Company intends to continue to fully cooperate in the government's investigations. It is not possible at this time to determine whether the Company will incur, or to reasonably estimate the amount of, any fines, penalties or further liabilities in connection with these matters.

*Miscellaneous*

The Company is involved in various other claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company's financial position, results of operations, liquidity

or capital resources. However, a significant increase in the number of these claims, or one or more successful claims under which the Company incurs greater liabilities than the Company currently anticipates, could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

**11. Quarterly Financial Data (Unaudited)**

Summarized unaudited quarterly financial data:

	2015			
	March 31	June 30	September 30	December 31
Revenue	\$1,089,043	\$1,197,783	\$1,216,890	\$997,507
Operating income	\$ 197,801	\$ 227,416	\$ 234,759	\$ 103,613
Net income	\$ 122,641	\$ 140,204	\$ 144,883	\$ 67,874
Basic earnings per share	\$ 3.95	\$ 4.51	\$ 4.65	\$ 2.19
Diluted earnings per share	\$ 3.88	\$ 4.45	\$ 4.59	\$ 2.17

	2014			
	March 31	June 30	September 30	December 31
Revenue	\$904,163	\$1,050,073	\$1,084,222	\$1,069,811
Operating income	\$135,650	\$ 179,842	\$ 207,436	\$ 187,872
Net income	\$ 83,069	\$ 110,270	\$ 130,801	\$ 121,234
Basic earnings per share	\$ 2.67	\$ 3.55	\$ 4.22	\$ 3.91
Diluted earnings per share	\$ 2.64	\$ 3.50	\$ 4.15	\$ 3.84

# PART II

(continued)

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## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### Evaluation of Disclosure Controls and Procedures

As of December 31, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our co-Chief Executive Officers and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our co-Chief Executive Officers and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

### Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2015, we implemented a new human resource information and payroll system. We continued to integrate the software with our processes, systems, and controls in the quarter ended December 31, 2015. There were no other changes during the fiscal quarter ended December 31, 2015 in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## Management's Annual Report on Internal Control over Financial Reporting

The management of Chipotle Mexican Grill, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (the "2013 framework"). Based on that assessment, management concluded that, as of December 31, 2015, our internal control over financial reporting was effective based on the criteria established in the 2013 framework.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2015. This report follows.

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## Report of Independent Registered Public Accounting Firm

### **The Board of Directors and Shareholders of Chipotle Mexican Grill, Inc.**

We have audited Chipotle Mexican Grill, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Chipotle Mexican Grill, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Chipotle Mexican Grill, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Chipotle Mexican Grill, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 4, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
February 4, 2016



# PART II

(continued)

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## ITEM 9B. OTHER INFORMATION

None.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from the definitive proxy statement for our 2016 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2015.

## ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the definitive proxy statement for our 2016 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2015.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information regarding options and rights outstanding under our equity compensation plans as of December 31, 2015. All options/SOSARs reflected are options to purchase common stock.

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights <sup>(1)</sup>	(b) Weighted-Average Exercise Price of Outstanding Options and Rights <sup>(1)</sup>	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) <sup>(2)</sup>
<b>Equity Compensation Plans Approved by Security Holders</b>	1,810,275	\$490.70	3,236,113
<b>Equity Compensation Plans Not Approved by Security Holders</b>	None	N/A	None
<b>Total</b>	1,810,275	\$490.70	3,236,113

(1) Includes shares issuable in connection with awards with performance and market conditions, which will be issued based on achievement of performance criteria associated with the awards, with the number of shares issuable dependent on our level of performance. The weighted-average exercise price in column (b) includes the weighted-average exercise price of SOSARs only.

(2) Includes 2,988,301 shares remaining available under the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan, and 247,812 shares remaining available under the Chipotle Mexican Grill, Inc. Employee Stock Purchase Plan. In addition to being available for future issuance upon exercise of SOSARs or stock options that may be granted after December 31, 2015, all of the shares available for grant under the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan may instead be issued in the form of restricted stock, restricted stock units, performance shares or other equity-based awards. Each share underlying a full value award such as restricted stock, restricted stock units or performance shares counts as two shares used against the total number of securities authorized under the plan.

Additional information for this item is incorporated by reference from the definitive proxy statement for our 2016 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2015.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the definitive proxy statement for our 2016 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2015.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from the definitive proxy statement for our 2016 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2015.

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## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

### **1. All Financial statements**

Consolidated financial statements filed as part of this report are listed under Item 8. “Financial Statements and Supplementary Data.”

### **2. Financial statement schedules**

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

### **3. Exhibits**

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report.



# EXHIBIT INDEX



Exhibit Number	Exhibit Description	Description of Exhibit Incorporated Herein by Reference				
		Form	File No.	Filing Date	Exhibit Number	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation	8-A/A	001-32731	December 16, 2009	3.1	
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc.	10-Q	001-32731	July 19, 2013	3.2	
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc. (implementing simple majority voting)	8-K	001-32731	May 15, 2015	3.1	
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc. (removing plurality voting standard)	8-K	001-32731	May 15, 2015	3.2	
3.5	Amended and Restated Bylaws of Chipotle Mexican Grill, Inc.	8-K	001-32731	September 4, 2015	3.1	
4.1	Form of Stock Certificate for Shares of Common Stock	10-K	001-32731	February 10, 2012	4.1	
10.1†	Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan	8-K	001-32731	May 15, 2015	10.1	
10.2†	Amended and Restated Chipotle Mexican Grill, Inc. 2006 Stock Incentive Plan	10-K	001-32731	February 17, 2011	10.2	
10.2.3†	Form of 2009 Stock Appreciation Rights Agreement	10-K	001-32731	February 19, 2009	10.2.7	
10.2.4†	Form of 2011 Stock Appreciation Rights Agreement	10-K	001-32731	February 17, 2011	10.2.10	
10.2.5†	Form of 2011 Performance-Based Stock Appreciation Rights Agreement	10-K	001-32731	February 17, 2011	10.2.11	
10.3†	Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan	8-K	001-32731	May 26, 2011	10.1	
10.3.1†	Form of Board Restricted Stock Units Agreement	10-Q	001-32731	July 22, 2014	10.1	
10.3.2†	Form of 2013 Performance Share Agreement	10-Q	001-32731	May 23, 2008	10.3	
10.3.3†	Form of Performance Share Agreement	10-Q	001-32731	April 22, 2015	10.2	
10.3.4†	Form of Stock Appreciation Rights Agreement	10-Q	001-32731	April 20, 2012	10.1	
10.3.5†	Form of Performance-Based Stock Appreciation Rights Agreement	10-Q	001-32731	April 20, 2012	10.2	
10.3.6†	Amendment No. 1 to Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan	10-K	001-32731	February 10, 2012	10.3.1	
10.4	Amended and Restated Registration Rights Agreement dated January 31, 2006 among Chipotle Mexican Grill, Inc., McDonald's Corporation and certain shareholders	10-K	001-32731	March 17, 2006	10.6	

# EXHIBIT INDEX

(continued)



Exhibit Number	Exhibit Description	Description of Exhibit Incorporated Herein by Reference				
		Form	File No.	Filing Date	Exhibit Number	Filed Herewith
10.5†	Board Pay Policies	10-Q	001-32731	April 22, 2015	10.1	
10.6†	Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan	10-K	001-32731	February 23, 2007	10.11	
10.6.1†	Amendment No. 1 to Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan	10-Q	001-32731	August 1, 2007	10.1	
10.6.2†	Amendment No. 2 to Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan	10-Q	001-32731	October 31, 2007	10.1	
10.7†	Form of Director and Officer Indemnification Agreement	8-K	001-32731	March 21, 2007	10.1	
10.8†	Chipotle Mexican Grill, Inc. Employee Stock Purchase Plan	10-K	001-32731	February 10, 2012	10.11	
10.9†	Chipotle Mexican Grill, Inc. 2014 Cash Incentive Plan	10-Q	001-32731	July 19, 2013	10.1	
21.1	Subsidiaries of Chipotle Mexican Grill, Inc.	-	-	-	-	X
23.1	Consent of Ernst & Young LLP (as the independent registered public accounting firm of Chipotle Mexican Grill, Inc.)	-	-	-	-	X
24.1	Power of Attorney (included on signature page of this report)	-	-	-	-	X
31.1	Certification of Chairman and Co-Chief Executive Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	-	-	-	-	X
31.2	Certification of Co-Chief Executive Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	-	-	-	-	X
31.3	Certification of Chief Financial Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	-	-	-	-	X
32.1	Certification of Co-Chief Executive Officers and Chief Financial Officer of Chipotle Mexican Grill, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	-	-	-	-	X
101	The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheet as of December 31, 2015 and December 31, 2014, (ii) Consolidated Statement of Income and Comprehensive Income for the years ended December 31, 2015, 2014 and 2013, (iii) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2015, 2014 and 2013, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013; and (v) Notes to the Consolidated Financial Statements	-	-	-	-	X

†- denotes management contract or compensatory plan or arrangement.



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Chipotle Mexican Grill, Inc.  
1401 Wynkoop Street, Suite 500  
Denver, CO 80202

March 24, 2016

DEAR SHAREHOLDER:

You are cordially invited to attend the annual meeting of shareholders of Chipotle Mexican Grill, Inc., which will be held on May 11, 2016 at 8:00 a.m. local time at the Grand Hyatt Denver, 1750 Welton Street, Denver, Colorado. Details of the business to be conducted at the annual meeting are given in the notice of meeting and proxy statement that follow.

Please vote promptly by following the instructions in this proxy statement or in the Notice of Internet Availability of Proxy Materials that was sent to you.

Sincerely,

/s/ Steve Ells  
Chairman of the Board and Co-Chief Executive Officer



## NOTICE OF MEETING

The 2016 annual meeting of shareholders of Chipotle Mexican Grill, Inc. will be held on May 11, 2016 at 8:00 a.m. local time at the Grand Hyatt Denver, 1750 Welton Street, Denver, Colorado. Shareholders will consider and take action on the following matters:

1. Election of the nine directors named in this proxy statement, Al Baldocchi, Darlene Friedman, John Charlesworth, Kimbal Musk, Monty Moran, Neil Flanzraich, Pat Flynn, Stephen Gillett and Steve Eells, each to serve a one-year term;
2. An advisory vote to approve the compensation of our executive officers as disclosed in this proxy statement (or "say-on-pay");
3. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2016;
4. A proposal to approve an amendment to the Amended and Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc., to remove a provision allowing only the Board of Directors or the Chairman of the Board to call special meetings of shareholders;
5. A proposal to approve amendments to the Chipotle Mexican Grill, Inc. Amended and Restated Bylaws to adopt a "proxy access" bylaw allowing a shareholder, or group of not more than 20 shareholders, owning an aggregate of not less than 5% of our outstanding common stock continuously for at least three years to submit a limited number of candidates for election to our Board, and to require us, subject to satisfaction of the requirements of our bylaws, to include such candidate(s) in our proxy materials for the meeting at which such election will be held;
6. Five shareholder proposals, if properly presented at the meeting; and
7. Such other business as may properly come before the meeting or any adjournments or postponements of the meeting.

Information with respect to the above matters is set forth in the proxy statement that accompanies this notice.

The record date for the meeting has been fixed by the Board of Directors as the close of business on March 14, 2016. Shareholders of record at that time are entitled to vote at the meeting.

### **By order of the Board of Directors**

/s/ Monty Moran  
Co-Chief Executive Officer, Secretary and Director

March 24, 2016

**Please execute your vote promptly by following the instructions included on the Notice of Internet Availability of Proxy Materials that was sent to you, or as described under "How do I vote?" on page 2 of the accompanying proxy statement.**

## MATTERS TO BE VOTED ON AT THE ANNUAL MEETING AND BOARD RECOMMENDATIONS

### 1. Election of Directors (p. 7)

Name	Years of Service	Independent	Board Recommendation
Albert Baldocchi	19	Yes	For
Darlene Friedman	21	Yes	For
John Charlesworth	17	Yes	For
Kimbal Musk	3	Yes	For
Monty Moran	10	No	For
Neil Flanzraich	9	Yes	For
Pat Flynn	18	Yes	For
Stephen Gillett	1	Yes	For
Steve Ells	20	No	For

*The election of directors at the annual meeting will complete our phasing out of the classification of the Board of Directors. From this meeting forward, all directors will be re-elected annually.*

### 2. Say-on-Pay (p. 19)

For

*See below under "Performance" and "Compensation" for additional discussion.*

### 3. Ratification of Ernst & Young LLP as independent auditors (p. 20)

For

### 4. Eliminate restrictions allowing only the Board of Directors or Chairman to call special meetings of shareholders (p. 22)

For

*Approval of this proposal will result in bylaw amendments becoming effective that will allow holders of 25% or more of our common stock to call special meetings.*

### 5. Adopt proxy access bylaw (p. 24)

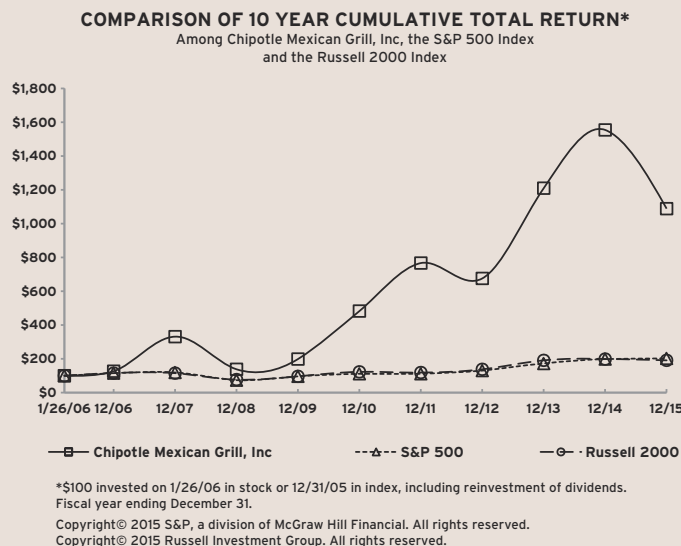
For

### 6. Shareholder proposals (p. 28)

AGAINST

## PERFORMANCE

Our business performance has been consistently strong and we have been tremendously successful in building long-term shareholder value. The graph below reflects the growth of an investment in our common stock at the close of the first day of trading following our initial public offering in January 2006, versus the performance of the S&P 500 and Russell 2000 indexes over a comparable 10 year period.



2015 was not without challenges, however. Beginning in the fourth quarter of 2015, a number of food-borne illness incidents associated with Chipotle restaurants, and related negative publicity, had a significant adverse impact on our sales and profitability. As a result of these business challenges, our stock price declined significantly. Although our long-term performance has been strong as compared to our restaurant industry peer group, the same did not hold true in 2015.

## COMPENSATION

Changes we made in 2015 to our executive compensation programs were well received, with the say-on-pay vote at the annual meeting in May 2015 being approved by over 95% of the shares voted.

In light of the challenges we faced during the second half of 2015 and the resulting decline in the price of our common stock, in February 2016 the Compensation Committee of the Board awarded performance shares to our executive officers that will be tied solely to highly challenging absolute stock price performance goals over a three-year performance period. We believe this will align executive officer compensation with restoring and further enhancing shareholder value.

**Details regarding executive compensation for 2015, and the executive officer equity awards made in early 2016, can be found in the compensation disclosures beginning on page 39.**

## GOVERNANCE HIGHLIGHTS

Seven of the nine members of our Board of Directors are independent.

Independent directors are led by an independent Lead Director.

Phase-out of classified board structure will be complete at annual shareholders meeting.

Directors are elected by majority vote in uncontested elections rather than plurality.

Independent Board members meet in executive session at each regularly-scheduled Board meeting.

Board conducts an annual self-assessment, the results of which are reported to the full Board.

Each independent director is subject to Board stock ownership requirements.

No shareholder rights plan or "poison pill."

Board is recommending adoption of bylaws permitting holders of at least 25% of our outstanding common stock to call special meetings of shareholders.

Board is recommending adoption of proxy access for qualifying long-term shareholders.

For significant compensation policies and procedures we employ to motivate our employees to build shareholder value, while protecting the interests of all our shareholders, see page 43.



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## ANNUAL MEETING INFORMATION

This proxy statement contains information related to the annual meeting of shareholders of Chipotle Mexican Grill, Inc. to be held on Wednesday, May 11, 2016, beginning at 8:00 a.m. at the Grand Hyatt Denver, 1750 Welton Street, Denver, Colorado. This proxy statement was prepared under the direction of Chipotle's Board of Directors to solicit your proxy for use at the annual meeting. It will be made available to shareholders on or about March 24, 2016.

### Who is entitled to vote and how many votes do I have?

If you were a shareholder of record of our common stock on March 14, 2016, you are entitled to vote at the annual meeting, or at any postponement or adjournment of the annual meeting. On each matter to be voted on, you may cast one vote for each share of common stock you hold. As of March 14, 2016, there were 29,563,030 shares of common stock outstanding and entitled to vote.

### What am I voting on?

You will be asked to vote on ten proposals:

	<b>Board Recommendation:</b>
<b>PROPOSAL 1 -</b> Election of nine directors: Al Baldocchi, Darlene Friedman, John Charlesworth, Kimbal Musk, Monty Moran, Neil Flanzraich, Pat Flynn, Stephen Gillett and Steve Eills.	FOR
<b>PROPOSAL 2 -</b> An advisory vote to approve the compensation of our executive officers as disclosed in this proxy statement ("say-on-pay").	FOR
<b>PROPOSAL 3 -</b> Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2016.	FOR
<b>PROPOSAL 4 -</b> A proposal to approve an amendment to the Amended and Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc., to remove a provision allowing only the Board of Directors or the Chairman of the Board to call special meetings of shareholders.  <i>Approval of this proposal will result in bylaw amendments becoming effective that will allow holders of 25% or more of our outstanding common stock to call special meetings of shareholders, subject to certain limitations.</i>	FOR
<b>PROPOSAL 5 -</b> A proposal to approve amendments to the Chipotle Mexican Grill, Inc. Amended and Restated Bylaws to adopt a "proxy access" bylaw allowing a shareholder, or group of not more than 20 shareholders, owning an aggregate of not less than 5% of our outstanding common stock continuously for at least three years to submit a limited number of candidates for election to our Board and to require us to include such candidate(s), subject to satisfaction of the requirements of our bylaws, in our proxy materials for the meeting at which such election will be held.	FOR
<b>PROPOSAL 6 -</b> A shareholder proposal, if properly presented at the meeting, requesting that the Board of Directors adopt and present for shareholder approval a "proxy access" bylaw to allow a shareholder or group of shareholders owning an aggregate of 3% or more of our outstanding common stock continuously for at least three years to submit a limited number of candidates for election to our Board and to require us to include such candidate(s) in our proxy materials for the meeting at which such election will be held.	AGAINST

# Annual Meeting Information

(continued)



	Board Recommendation:
<b>PROPOSAL 7 -</b> A shareholder proposal, if properly presented at the meeting, requesting adoption of a stock retention policy for senior executives.	AGAINST
<b>PROPOSAL 8 -</b> A shareholder proposal, if properly presented at the meeting, requesting that the Board of Directors implement changes to Chipotle's governing documents to allow shareholders owning an aggregate of 10% of our outstanding common stock to call special meetings of shareholders.	AGAINST
<b>PROPOSAL 9 -</b> A shareholder proposal, if properly presented at the meeting, requesting Chipotle to issue an annual sustainability report meeting specified criteria.	AGAINST
<b>PROPOSAL 10 -</b> A shareholder proposal, if properly presented at the meeting, requesting that our Compensation Committee prepare and disclose a report on the feasibility of incorporating sustainability measures into executive officer incentive compensation programs.	AGAINST

The Board of Directors is not aware of any other matters to be presented for action at the meeting.

## How do I vote?

If you hold your shares through a broker, bank, or other nominee in "street name," you need to submit voting instructions to your broker, bank or other nominee in order to cast your vote. In most instances you can do this over the Internet. The Notice of Internet Availability of Proxy Materials that was provided to you has specific instructions for how to submit your vote, or if you have received or request a hard copy of this proxy statement you may mark, sign, date and mail the accompanying voting instruction form in the postage-paid envelope provided. Your vote is revocable by following the procedures outlined in this proxy statement. However, since you are not a shareholder of record you may not vote your shares in person at the meeting without obtaining authorization from your broker, bank or other nominee.

If you are a shareholder of record, you can vote your shares over the Internet as described in the Notice of Internet Availability of Proxy Materials that was provided to you, or if you have received or request a hard copy of this proxy statement and accompanying form of proxy card you may vote by telephone as described on the proxy card, or by mail by marking, signing, dating and mailing your proxy card in the postage-paid envelope provided. Your designation of a proxy is revocable by following the procedures outlined in this proxy statement. The method by which you vote will not limit your right to vote in person at the annual meeting. If you receive hard copy materials and sign and return your proxy card without specifying

choices, your shares will be voted as recommended by the Board of Directors.

## Will my shares held in street name be voted if I do not provide voting instructions?

Under the rules of the New York Stock Exchange, or NYSE, on voting matters characterized by the NYSE as "routine," NYSE member firms have the discretionary authority to vote shares for which their customers do not provide voting instructions. On non-routine proposals, such as "uninstructed shares" may not be voted by member firms. Only the proposal to ratify the appointment of our independent registered public accounting firm is considered a routine matter for this purpose. None of the other proposals presented in this proxy statement are considered routine matters. Accordingly, if you hold your shares through a brokerage firm and do not provide timely voting instructions, your shares will be voted, if at all, only on Proposal 3. **We strongly encourage you to exercise your right to vote in the election of directors and other matters to be voted on at the annual meeting.**

## Can I change my vote or revoke my proxy?

You can change your vote or revoke your proxy at any time before it is voted at the annual meeting by:

- re-submitting your vote on the Internet;
- if you are a shareholder of record, by sending a written notice of revocation to our corporate Secretary at our principal offices, 1401 Wynkoop Street, Suite 500, Denver, Colorado, 80202; or
- if you are a shareholder of record, by attending the annual meeting and voting in person.

# Annual Meeting Information

(continued)



Attendance at the annual meeting will not by itself revoke your proxy. If you hold shares in street name and wish to cast your vote in person at the meeting, you must contact your broker, bank or other nominee to obtain authorization to vote.

## What do I need to attend the meeting?

We generally limit attendance at the meeting to shareholders. Attendees will be required to present proof of ownership of Chipotle common stock as of the record date, as well as valid picture identification, in order to be admitted to the meeting. Evidence of share ownership may be in the form of a valid stock certificate, or an account statement from our transfer agent or from a broker, bank, trust or other nominee that evidences ownership as of the record date. Note that in order to vote at the meeting, beneficial owners who own shares in "street name" must present a legal proxy from the record holder of the shares. Seating at the meeting will be first come first served, and due to space constraints we can't guarantee seating for all attendees.

## What constitutes a quorum?

A quorum is necessary to conduct business at the annual meeting. At any meeting of our shareholders, the holders of a majority in voting power of our outstanding shares of common stock entitled to vote at the meeting, present in person or by proxy, constitutes a quorum for all purposes. You are part of the quorum if you have voted by proxy. Abstentions, broker non-votes and votes withheld from director nominees count as "shares present" at the meeting for purposes of determining whether a quorum exists. A broker non-vote occurs when a broker, bank or other nominee who holds shares for another does not vote on a particular item because the nominee has not received instructions from the owner of the shares and does not have discretionary voting authority for that item.

## What vote is required to approve each proposal?

**Proposal 1** – Re-election of each nominee for director requires that such nominee receive a majority of the votes cast regarding his or her election. Abstentions and broker non-votes are not counted as votes cast and will have no effect on the outcome of the re-election of any nominee.

**Proposals 2, 3 & 6 through 10** – The say-on-pay vote, ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2016, and approval of each of the five shareholder proposals (if properly presented at the meeting) all require the affirmative vote of a majority of

the votes cast at the annual meeting in order to be approved. Because the say-on-pay vote and the votes on the shareholder proposals are advisory, they will not be binding on the Board or Chipotle. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation and the subject matters of the shareholder proposals. Ratification of our appointment of independent auditors is not required and therefore the vote on Proposal 3 is also advisory only. See Proposal 3 for additional information about the effect of the voting outcome on this proposal. Abstentions and broker non-votes are not counted as votes cast and will have no effect on the outcome of any of these proposals.

**Proposals 4 & 5** – Approval of the proposal to amend our certificate of incorporation and the proposal to amend our bylaws each require the affirmative vote of a majority of the outstanding shares of common stock in order to be approved. Abstentions and broker non-votes have the same effect as votes "AGAINST" these proposals.

## What if a nominee for director does not receive a majority of votes cast regarding his or her election?

Such director(s) would be required to submit an irrevocable resignation to the Nominating and Corporate Governance Committee of the Board, and the committee would make a recommendation to the Board as to whether to accept or reject the resignation or whether other action should be taken. The Board would then act on the resignation, taking into account the committee's recommendation, and publicly disclose (by a press release and filing an appropriate disclosure with the SEC) its decision regarding the resignation, and if such resignation is rejected the rationale behind the decision, within 90 days following certification of the election results. The committee in making its recommendation, and the Board in making its decision, each may consider any factors and other information that they consider appropriate and relevant.

## How is this proxy statement being delivered?

We have elected to deliver our proxy materials electronically over the Internet as permitted by rules of the Securities and Exchange Commission, or SEC. As required by those rules, we are distributing to our shareholders of record and beneficial owners as of the close of business on March 14, 2016 a Notice of Internet Availability of Proxy Materials. On the date of distribution of the notice, all shareholders and beneficial owners will have the ability to access all of the proxy materials at the URL address included in the notice. These proxy materials are also available free of charge upon request at 1-800-579-1639, or



# Annual Meeting Information

(continued)



by e-mail at [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com). Requests by e-mail should include the 12-digit control number included on the notice you received. If you would like to receive the Notice of Internet Availability of Proxy Materials via e-mail rather than regular mail in future years, please follow the instructions on the notice, or enroll on the Investors page of our web site at [www.chipotle.com](http://www.chipotle.com). Delivering future notices by e-mail will help us reduce the cost and environmental impact of our annual meeting.

## **Who is bearing the cost of this proxy solicitation?**

We will bear the cost of preparing, assembling and mailing the Notice of Internet Availability of Proxy Materials; of

making these proxy materials available on the Internet and providing hard copies of the materials to shareholders who request them; and of reimbursing brokers, nominees, fiduciaries and other custodians for the out-of-pocket and clerical expenses of transmitting copies of the Notice of Internet Availability of Proxy Materials and the proxy materials themselves to beneficial owners of our shares. A few of our officers and employees may participate in the solicitation of proxies, without additional compensation, by telephone, e-mail or other electronic means or in person. We have also engaged Alliance Advisors, LLC to assist us in the solicitation of proxies, for which we have agreed to pay a fee of \$22,500 plus reimbursement of customary expenses.

## BENEFICIAL OWNERSHIP OF OUR COMMON STOCK

The following tables set forth information as of March 14, 2016 as to the beneficial ownership of shares of our common stock by:

- each person (or group of affiliated persons) known to us to beneficially own more than 5 percent of our common stock;
- each of the executive officers listed in the Summary Compensation Table appearing later in this proxy statement;
- each of our directors; and
- all of our current executive officers and directors as a group.

The number of shares beneficially owned by each shareholder is determined under SEC rules and generally includes shares for which the holder has voting or investment power. The information does not necessarily indicate beneficial ownership for any other purpose. The percentage of beneficial ownership shown in the following tables is based on 29,563,030 outstanding shares of common stock as of March 14, 2016. For purposes of calculating each person's or group's percentage ownership, shares of common stock issuable pursuant to the terms of stock options, stock appreciation rights or restricted stock units exercisable or vesting within 60 days after March 14, 2016 are included as outstanding and beneficially owned for that person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.

Name of Beneficial Owner	Total Shares Beneficially Owned	Percentage of Class Beneficially Owned
<u>Beneficial holders of 5% or more of outstanding common stock</u>		
FMR LLC <sup>(1)</sup>	3,678,947	12.44%
The Vanguard Group, Inc. <sup>(2)</sup>	2,606,014	8.82%
BlackRock, Inc. <sup>(3)</sup>	2,239,823	7.58%
T. Rowe Price Associates, Inc. <sup>(4)</sup>	2,092,817	7.08%
Sands Capital Management, LLC <sup>(5)</sup>	1,559,938	5.28%
<u>Directors and named executive officers</u>		
Steve Eills <sup>(6)(7)</sup>	359,302	1.21%
Montgomery Moran <sup>(6)(8)</sup>	492,255	1.65%
John Hartung <sup>(9)</sup>	110,464	*
Mark Crumpacker <sup>(10)</sup>	26,000	*
Albert Baldocchi <sup>(6)(11)(12)</sup>	72,918	*
John Charlesworth <sup>(11)</sup>	3,403	*
Neil Flanzraich <sup>(11)</sup>	3,631	*
Patrick Flynn <sup>(11)</sup>	6,313	*
Darlene Friedman <sup>(6)(11)(13)</sup>	4,864	*
Stephen Gillett <sup>(14)</sup>	-	-
Kimbal Musk <sup>(15)</sup>	-	-
All directors and executive officers as a group (11 people) <sup>(16)</sup>	1,079,150	3.58%

\* Less than one percent.

(1) Based solely on a report on Schedule 13G/A filed on February 12, 2016. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares of common stock reflected as beneficially owned by FMR LLC. The interest of one person, Fidelity Contrafund, an investment company registered under the Investment Company Act of 1940, in the shares of common stock reflected as beneficially owned by FMR LLC amounted to 1,947,253 shares or 6.59% of the total outstanding common stock at March 14, 2016. The address of FMR LLC is 245 Summer Street, Boston, Massachusetts, 02210.

(2) Based solely on a report on Schedule 13G/A filed on February 11, 2016. The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, Pennsylvania, 19355.

# Ownership Information

(continued)



- (3) Based solely on a report on Schedule 13G/A filed on February 10, 2016. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York, 10055.
- (4) Based solely on a report on Schedule 13G/A filed on February 9, 2016. Shares beneficially owned by T. Rowe Price Associates, Inc. (Price Associates) are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. The address of Price Associates is 100 E. Pratt Street, Baltimore, Maryland, 21202.
- (5) Based solely on a report on Schedule 13G/A filed on February 16, 2016. The address of Sands Capital Management, LLC is 1101 Wilson Blvd., Suite 2300, Arlington, Virginia, 22209.
- (6) A portion of the shares beneficially owned by Mr. Ells, Mr. Moran, Mr. Baldocchi and Ms. Friedman are entitled to piggyback registration rights.
- (7) Shares beneficially owned by Mr. Ells include 81,250 shares underlying vested stock appreciation rights, and 81,250 shares underlying vested performance stock appreciation rights on which the performance conditions have been satisfied.
- (8) Shares beneficially owned by Mr. Moran include 256,250 shares underlying vested stock appreciation rights, and 81,250 shares underlying vested performance stock appreciation rights on which the performance conditions have been satisfied.
- (9) Shares beneficially owned by Mr. Hartung include: 19,782 shares in a revocable trust for Mr. Hartung's benefit and of which his spouse is the trustee; 72 shares beneficially owned by his children; and 52,500 shares underlying vested stock appreciation rights, and 27,500 shares underlying vested performance stock appreciation rights on which the performance conditions have been satisfied. Mr. Hartung disclaims beneficial ownership of the shares beneficially owned by his children.
- (10) Shares beneficially owned by Mr. Crumpacker include 11,500 shares underlying vested stock appreciation rights and 11,500 shares underlying vested performance stock appreciation rights on which the performance conditions have been satisfied.
- (11) Shares beneficially owned by Messrs. Baldocchi, Charlesworth, Flanzraich and Flynn and Ms. Friedman include 658 shares underlying unvested restricted stock units, which are deemed to be beneficially owned because each such director is retirement-eligible and the vesting of the awards accelerates in the event of the director's retirement.
- (12) Shares beneficially owned by Mr. Baldocchi include 69,648 shares owned jointly by Mr. Baldocchi and his spouse.
- (13) Shares beneficially owned by Ms. Friedman include 4,000 shares held by a revocable trust of which Ms. Friedman is a co-trustee.
- (14) Mr. Gillett was appointed to the Board in March 2015. Directors are expected to own shares of common stock having a total value of five times the annual cash retainer payable to outside directors within five years of being elected to the Board. Excludes 152 shares underlying unvested restricted stock units which will vest on May 13, 2018.
- (15) Mr. Musk was appointed to the Board in September 2013. Directors are expected to own shares of common stock having a total value of five times the annual cash retainer payable to outside directors within five years of being elected to the Board. Excludes 70 shares underlying unvested restricted stock units which will vest on September 1, 2016, 242 shares underlying unvested restricted stock units which will vest on May 15, 2017, and 189 shares underlying restricted stock units which will vest on May 13, 2018.
- (16) See Notes (6) through (15).

## Election of Directors

Our Board of Directors has nine members currently divided into two classes. Beginning in 2014, we commenced the phase-out of the classification of our Board, such that each director is now elected to a one year term and will continue in office until a successor has been elected and qualified, subject to the director’s earlier resignation, retirement or removal from office. The current term of office of all of our directors will end at this year’s annual meeting of shareholders, and as a result, following this annual meeting, all directors will be elected on an annual basis.

Al Baldocchi, Darlene Friedman, John Charlesworth, Kimbal Musk, Monty Moran, Neil Flanzraich, Pat Flynn, Stephen Gillett and Steve Ells are the nominees for election as directors to serve for a one year term expiring at the 2017 annual meeting. Each of the nominees was nominated by the Board upon the recommendation of the Nominating and Corporate Governance Committee, and has consented to serve if elected. If any nominee is unable to serve or will not serve for any reason, the persons designated on the accompanying form of proxy will vote for other candidates in accordance with their judgment. We are not aware of any reason why the nominees would not be able to serve if elected.

Re-election of each nominee for director requires that such nominee receive a majority of the votes cast regarding his or her election. Abstentions and broker non-votes are not counted as votes cast and will have no effect on the outcome of the election of any director.

**The Board of Directors recommends a vote FOR the election of Ms. Friedman and Messrs. Baldocchi, Charlesworth, Ells, Flanzraich, Flynn, Gillett, Moran and Musk as directors.**

## INFORMATION REGARDING THE BOARD OF DIRECTORS

### Biographical Information

The following is biographical information about each current director, including a description of the experience, qualifications and skills that led the Board to determine that each director should serve on the Board. The respective current terms of all directors expire on the dates set forth below or continue until their successors are elected and have qualified.

CLASS I DIRECTORS WHOSE TERMS EXPIRE AT THE 2016 ANNUAL MEETING OF SHAREHOLDERS AND WHO ARE NOMINEES FOR TERMS EXPIRING AT THE 2017 ANNUAL MEETING		AGE	DIRECTOR SINCE
John S. Charlesworth	Mr. Charlesworth is currently the sole owner/member of Hunt Business Enterprises LLC and EZ Street LLC, which own commercial properties and own and operate car care facilities. Before retiring in 2000, Mr. Charlesworth worked for McDonald’s for 26 years, most recently as President of the Midwest Division of McDonald’s USA from July 1997 to December 2000. Prior to that, he served as a Senior Vice President in Southeast Asia from April 1995 to July 1997. His international experience included strategic planning and risk assessment for the growth and development of McDonald’s across Southeast Asia, as well as serving as the McDonald’s partner representative to seven Southeast Asian joint ventures. His experience with McDonald’s included responsibility for managing a large and diverse employee workforce similar in many ways to Chipotle’s, and also gave him a detailed knowledge of restaurant operations and food safety, site selection and related matters. He also has developed strong financial acumen through his experience at McDonald’s as well as running his own business interests. He holds a Bachelor of Science degree in business, majoring in economics, from Virginia Polytechnic Institute.	69	1999

CLASS I DIRECTORS WHOSE TERMS EXPIRE AT THE 2016 ANNUAL MEETING OF SHAREHOLDERS AND WHO ARE NOMINEES FOR TERMS EXPIRING AT THE 2017 ANNUAL MEETING (CONT'D)		AGE	DIRECTOR SINCE
Kimbal Musk	Mr. Musk is an entrepreneur and restaurateur who has helped found and advise several companies and non-profits including: The Kitchen Restaurant Group, a restaurant company with restaurants in Boulder and Denver, CO and Chicago, IL; The Kitchen Community; Zip2 Corporation (acquired by Compaq Computer Corporation); PayPal, Inc. (acquired by eBay Inc.); Everdream Corporation (acquired by Dell Inc.); Tesla Motors, Inc.; Space Exploration Technologies Corp. (SpaceX); OneRiot (acquired by Wal Mart Stores, Inc.) and SolarCity Corporation. Mr. Musk has been Chief Executive Officer of The Kitchen Restaurant Group since April 2004, and Executive Director of The Kitchen Community, a non-profit organization that creates learning gardens in schools across the United States, since November 2010. After success in the technology business, Mr. Musk decided to pursue his passion for food and cooking and attended the French Culinary Institute in New York City. His extensive experience with fast-growing and innovative companies as well as restaurants and other retail operations, and his experience on numerous boards of directors, are an asset to our Board. Mr. Musk is a member of the board of directors of Tesla Motors, Inc. (Nasdaq:TSLA) as well as a number of privately-held companies and charitable organizations. He has served as an Adjunct Professor at New York University, and is a graduate of Queen's Business School in Canada and the French Culinary Institute.	43	2013
Montgomery F. (Monty) Moran	Mr. Moran is our Co-Chief Executive Officer and Secretary. He was appointed as Co-Chief Executive Officer on January 1, 2009, after serving as our President and Chief Operating Officer since March 2005. Mr. Moran previously served as chief executive officer of the Denver law firm Messner & Reeves, LLC, where he was employed since 1996, and as general counsel of Chipotle. His experience as our outside general counsel from the time we had only a few restaurants through our growth to several hundred restaurants at the time he joined us as an employee has given him an in-depth knowledge and understanding of every aspect of our business. His legal experience ran from trial and employment matters to real estate and other transactional matters, as well as general corporate counseling. As a result he has an outstanding skill set in such areas as risk management and crisis handling, and also is thoroughly familiar with management personnel throughout our organization. In addition, Mr. Moran was the visionary and creator of our Restaurateur program and other aspects of instilling a culture of high performers throughout Chipotle, and his leadership in this area has been critical to our success. He is also one of the largest individual shareholders of our company. Mr. Moran holds a Bachelor of Arts degree in communications from the University of Colorado and a J.D., cum laude, from Pepperdine University School of Law.	49	2006
Patrick J. Flynn	Prior to retiring in 2001, Mr. Flynn spent 39 years at McDonald's where he held a variety of executive and management positions, most recently as Executive Vice President responsible for strategic planning and acquisitions. From his background as a senior-level restaurant industry executive, Mr. Flynn developed strong capabilities in guiding corporate strategy, and tremendous knowledge of the operational aspects of the restaurant business as well. In addition, Mr. Flynn's past experience as a director of a publicly-held financial institution, and his background in analyzing financial statements of businesses he has led and companies he has considered for acquisition, have given him strong financial analysis skills.	73	1998

<b>CLASS I DIRECTORS WHOSE TERMS EXPIRE AT THE 2016 ANNUAL MEETING OF SHAREHOLDERS AND WHO ARE NOMINEES FOR TERMS EXPIRING AT THE 2017 ANNUAL MEETING (CONT'D)</b>		<b>AGE</b>	<b>DIRECTOR SINCE</b>
Stephen Gillett	<p>Mr. Gillett was appointed to our Board on March 12, 2015. In March 2016, he became a senior executive leader at Google [x], and since October 2015 has been an active advisor to Google Ventures, an affiliate of Alphabet Inc. and Google Inc., where he provides leadership resources and mentoring to portfolio companies. Prior to his roles with Google, he served as Executive Vice President and Chief Operating Officer of Symantec Corporation (Nasdaq: SYMC) until December 31, 2014. In this role, he was responsible for corporate strategy, business segment management, eBusiness, IT, marketing, communications, sales and marketing operations, customer care, product renewals and cloud platform engineering. Mr. Gillett also served as a member of Symantec's Board of Directors from January 2012 to December 2012. Prior to joining Symantec, Mr. Gillett was Executive Vice President and President, Best Buy Digital, Global Marketing and Strategy of Best Buy Co., Inc., from March 2012 to December 2012. From May 2008 to March 2012, Mr. Gillett was Executive Vice President, Digital Ventures and Chief Information Officer at Starbucks, Inc. His background also includes senior technology positions with companies including Yahoo! Inc. and CNET Networks. Mr. Gillett's extensive experience with technology and cybersecurity is valuable to the Board in exercising its oversight of our IT systems and related security matters. He also has extensive leadership experience, including with global organizations, and considerable financial planning experience, all of which are also assets to our Board. He received a Bachelor's degree from University of Oregon and an MBA from San Francisco State University.</p>	40	2015
Steve Ells	<p>Mr. Ells founded Chipotle in 1993. He is Co-Chief Executive Officer and was appointed Chairman of the Board in 2005. Prior to launching Chipotle, Mr. Ells worked for two years at Stars restaurant in San Francisco. Mr. Ells's vision - that food served fast doesn't have to be low quality and that delicious food doesn't have to be expensive - is the foundation on which Chipotle is based. This visionary thinking has led Chipotle to extraordinary accomplishments, such as growing from a single restaurant to over 2,000 and serving more responsibly-raised meat than any other restaurant company. This thinking has also resulted in Mr. Ells remaining a principal driving force behind making our company innovative and striving for constant improvement, and he continues to provide important leadership to our executive officers, management team, and Board. He is also one of the largest individual shareholders of our company. Mr. Ells graduated from the University of Colorado with a Bachelor of Arts degree in art history, and is also a 1990 Culinary Institute of America graduate.</p>	50	1996



CLASS II DIRECTORS WHOSE TERMS EXPIRE AT THE 2016 ANNUAL MEETING OF SHAREHOLDERS AND WHO ARE NOMINEES FOR TERMS EXPIRING AT THE 2017 ANNUAL MEETING		AGE	DIRECTOR SINCE
Albert S. Baldocchi	Mr. Baldocchi has been self-employed since 2000 as a financial consultant and strategic advisor for and investor in a variety of privately-held companies. His extensive involvement with restaurant companies over a period of 17 years has given Mr. Baldocchi an in-depth knowledge of restaurant company finance, operations and strategy. He also has considerable experience with high-growth companies in the restaurant industry and in other industries, and his experience as a senior investment banker at a number of prominent institutions, including Morgan Stanley, Salomon Brothers and Montgomery Securities, helped him develop solid capabilities in accounting and finance as well. Mr. Baldocchi holds a Bachelor of Science degree in chemical engineering from the University of California at Berkeley and an MBA from Stanford University.	61	1997
Darlene J. Friedman	Prior to retiring in 1995, Ms. Friedman spent 19 years at Syntex Corporation, an international pharmaceutical company, where she held a variety of management positions, most recently as Senior Vice President of Human Resources. While at Syntex, Ms. Friedman was a member of the corporate executive committee and the management committee, and was responsible for the analysis, recommendation and administration of the company's executive compensation programs and worked directly with the compensation committee of Syntex's board. This experience and Ms. Friedman's talent in the areas of people management and compensation are invaluable in connection with her service as a director and as a member of our Compensation Committee. Ms. Friedman holds a Bachelor of Arts degree in psychology from the University of California at Berkeley and an MBA from the University of Colorado.	73	1995
Neil W. Flanzraich	Mr. Flanzraich has been a private investor since February 2006. He is also the Executive Chairman of Cantex Pharmaceuticals, Inc. (formerly ParinGenix, Inc.), a privately-owned biotech company. From 1998 through its sale in January 2006 to TEVA Pharmaceuticals Industries, Ltd., he served as Vice Chairman and President of IVAX Corporation, an international pharmaceutical company. From 1995 to 1998, Mr. Flanzraich served as Chairman of the Life Sciences Legal Practice Group of Heller Ehrman LLP, a law firm, and from 1981 to 1994, served as the Senior Vice President and Chief Counsel and member of the Operating and Executive Committees of Syntex Corporation, an international pharmaceutical company. Mr. Flanzraich's executive experience has helped him develop outstanding skills in leading and managing strong teams of employees, and in oversight of the growth and financing of businesses in a rapidly-evolving market. His legal background also is valuable to us in the risk management area, and Mr. Flanzraich brings to us extensive experience serving as an independent director of other public and privately-held companies. He is a director of Equity One Inc. (NYSE:EQY). Mr. Flanzraich was a director of BELLUS Health Inc. until May 2012, a director of Continucare Corporation until October 2011, and a director of Javelin Pharmaceuticals, Inc. until July 2010. Mr. Flanzraich received an A.B. from Harvard College and a J.D. from Harvard Law School.	72	2007

The Board of Directors held five meetings in 2015. Each director attended at least 75 percent of the meetings of the Board and of committees of which they were members during 2015. The Board has requested that each member attend our annual shareholder meetings absent extenuating circumstances, and all directors attended the 2015 annual meeting.

## **A Majority of our Board Members are Independent**

Our Board of Directors, under direction of the Nominating and Corporate Governance Committee, reviews the independence of our directors to determine whether any relationships, transactions or arrangements involving any director or any family member or affiliate of a director may be deemed to compromise the director's independence from us, including under the independence standards in the rules of the NYSE. Based on that review, in March 2016 the Board determined that none of our directors have any relationships, transactions or arrangements that would compromise their independence, except Messrs. Eells and Moran, our Co-Chief Executive Officers. In particular, the Board determined that the following transactions do not constitute relationships that would create material conflicts of interest or otherwise compromise the independence of the directors in attending to their duties as Board members: (i) the registration rights granted to Mr. Baldocchi and Ms. Friedman, as described below under "Certain Relationships and Related Party Transactions;" (ii) a grant of \$250,000 to The Kitchen Community (representing less than 10% of the total 2015 donations to The Kitchen Community), a non-profit organization founded and chaired by Mr. Musk, by Chipotle Cultivate Foundation, our company charitable foundation; and (iii) our business relationships with Google Inc., the parent of Google Ventures, at which Mr. Gillett serves as Executive in Residence. Accordingly, the Board concluded that each director other than Messrs. Eells and Moran qualifies as an independent director.

## **Committees of the Board**

Our Board of Directors has three standing committees: (1) the Audit Committee, (2) the Compensation Committee, and (3) the Nominating and Corporate Governance Committee, each composed entirely of persons the Board has determined to be independent as described above. Each member of the Audit Committee has also been determined by the Board to be independent under the definition included in SEC Rule 10A-3(b)(1), and each member of the Compensation Committee has been determined to be independent under NYSE Rule 303A.02(a)(ii). Each committee operates pursuant to a

written charter adopted by our Board of Directors which sets forth the committee's roles and responsibilities and provides for an annual evaluation of its performance. The charters of all three standing committees are available on the Investors page of our corporate website at [ir.chipotle.com](http://ir.chipotle.com) under the Corporate Governance link.

## **Audit Committee**

In accordance with its charter, the Audit Committee acts to oversee the integrity of our financial statements and system of internal controls, the annual independent audit of our financial statements, the performance of our internal audit services function, our compliance with legal and regulatory requirements, the implementation and effectiveness of our disclosure controls and procedures, and the evaluation and oversight of risk issues, and also acts to ensure open lines of communication among our independent auditors, accountants, internal audit and financial management. The committee's responsibilities also include review of the qualifications, independence and performance of the independent auditors, who report directly to the Audit Committee. The committee retains, determines the compensation of, evaluates, and when appropriate replaces our independent auditors and pre-approves audit and permitted non-audit services provided by our independent auditors. The Audit Committee has adopted the "Policy Relating to Pre-Approval of Audit and Permitted Non-Audit Services" under which audit and non-audit services to be provided to us by our independent auditors are pre-approved. This policy is summarized on page 21 of this proxy statement. The committee determined that the fees paid to the independent auditor in 2015, including in connection with non-audit services, were appropriate, necessary and cost-efficient in the management of our business, and did not present a risk of compromising the auditor's independence.

As required by law, the Audit Committee has established procedures to handle complaints received regarding our accounting, internal controls or auditing matters. It is also required to ensure the confidentiality of employees who have provided information or expressed concern regarding questionable accounting or auditing practices. The committee also fulfills the oversight function of the Board with respect to risk management, as described under "Corporate Governance - Role of the Board of Directors in Risk Oversight." The committee may retain independent advisors at our expense that it considers necessary for the completion of its duties.

The Audit Committee held eight meetings in 2015. The members of the Audit Committee are Messrs. Baldocchi (Chairperson), Charlesworth, Flanzraich and Gillett. Our

Board of Directors has determined that all of the Audit Committee members meet the enhanced independence standards required of audit committee members by regulations of the SEC, and are financially literate as defined in the listing standards of the NYSE. The Board has further determined that Mr. Baldocchi qualifies as an "Audit Committee Financial Expert" as defined in SEC regulations.

No member of the Audit Committee served on more than three audit or similar committees of publicly held companies, including Chipotle, in 2015. A report of the Audit Committee is found under the heading "Audit Committee Report" on page 21.

### **Compensation Committee**

The Compensation Committee oversees our executive compensation policies and programs. In accordance with its charter, the committee determines the compensation of our Co-Chief Executive Officers based on an evaluation of their performance, and approves the compensation level of our other executive officers following an evaluation of their performance and recommendation by the Co-Chief Executive Officers. The manner in which the committee makes determinations as to the compensation of our executive officers is described in more detail below under "Executive Officers and Compensation - Compensation Discussion and Analysis - Overview of Executive Compensation Determinations."

The Compensation Committee charter also grants the committee the authority to: review and make recommendations to the Board with respect to the establishment of any new incentive compensation and equity-based plans; review and approve the terms of written employment agreements and post-service arrangements for executive officers; review our compensation programs generally to confirm that those plans provide reasonable benefits to us; recommend compensation to be paid to our outside directors; review disclosures to be filed with the SEC and distributed to our shareholders regarding executive compensation and recommend to the Board the filing of such disclosures; assist the Board with its functions relating to our compensation and benefits programs generally; and other administrative matters with regard to our compensation programs and policies. The committee may delegate any of its responsibilities to a subcommittee comprised of one or more members of the committee, except where such delegation is not allowed by legal or regulatory requirements.

The Compensation Committee has also been appointed by the Board to administer our Amended and Restated 2011

Stock Incentive Plan and to make awards under the plan, including as described below under "Executive Officers and Compensation - Compensation Discussion and Analysis - Components of Compensation - Long-Term Incentives." The committee has in some years, including 2015, delegated its authority under the plan to our executive officers to make grants to non-executive officer level employees, within limitations specified by the committee in its delegation of authority.

The Compensation Committee retained Compensation Strategies Inc., an outside executive compensation consulting firm, to provide the committee with advice regarding compensation matters for 2014 and for the equity compensation awards made to our executive officers in February 2015. In September 2015, the committee retained Pay Governance, LLC, another outside executive compensation consulting firm, to provide the committee with advice regarding executive compensation matters for the remainder of 2015. All of the fees paid to Compensation Strategies and Pay Governance during 2015 were in connection with each firm's work on executive compensation matters on behalf of the committee; no fees were paid to either firm for any other work. Each firm was retained pursuant to an engagement letter with the Compensation Committee, and the committee determined that each firm's service to Chipotle did not and does not give rise to any conflict of interest, and considers each firm to have sufficient independence from our company and executive officers to allow it to offer objective advice.

The Compensation Committee held fourteen meetings in 2015, including a number of meetings with shareholders to discuss executive compensation matters. A report of the committee is found under the heading "Executive Officers and Compensation - Compensation Discussion and Analysis - Compensation Committee Report" on page 53.

### **Compensation Committee Interlocks and Insider Participation**

Mr. Flanzraich was appointed Chairperson of our Compensation Committee in September 2015, and the other members of the committee are Ms. Friedman and Mr. Flynn. There are no relationships between the members of the committee and our executive officers of the type contemplated in the SEC's rules requiring disclosure of "compensation committee interlocks." None of the members of the committee is our employee and no member has been an officer of our company at any time. The Board has determined that each member of the committee qualifies as a "Non-Employee Director" under SEC Rule 16b-3 and as an "Outside Director" under Section 162(m) of the

Internal Revenue Code of 1986, as amended, and that each member satisfies the standards of NYSE Rule 303A.02(a)(ii) regarding independence of compensation committee members. No member of the committee nor any organization of which any member of the committee is an officer or director received any payments from us during 2015, other than the payments disclosed under “- Compensation of Directors” below. See “Certain Relationships and Related Party Transactions” for a description of agreements we have entered into with Ms. Friedman.

### **Nominating and Corporate Governance Committee**

The responsibilities of the Nominating and Corporate Governance Committee include reviewing, at least annually, the adequacy of our corporate governance principles and recommending to the Board any changes to such principles as deemed appropriate, and recommending to the Board appropriate guidelines and criteria to determine the qualifications to serve and continue to serve as a director. The Nominating and Corporate Governance Committee identifies and reviews the qualifications of, and recommends to the Board, (i) individuals to be nominated by the Board for election to the Board at each annual meeting, (ii) individuals to be nominated and elected to fill any vacancy on the Board which occurs for any reason (including increasing the size of the Board) and (iii) appointments to committees of the Board.

The committee, at least annually, reviews the size, composition and organization of the Board and its committees and recommends any policies, changes or other action it deems necessary or appropriate, including recommendations to the Board regarding retirement age, resignation or removal of a director, independence requirements, frequency of Board meetings and terms of directors. A number of these matters are covered in our Corporate Governance Guidelines, which the committee also reviews at least annually. The committee also reviews the nomination by our shareholders of candidates for election to the Board if such nominations are within the time limits and meet other requirements established by our bylaws. The committee oversees the annual evaluation of the performance of the Board and its committees and reviews and makes recommendations regarding succession plans for positions held by executive officers.

The Nominating and Corporate Governance Committee held three meetings in 2015. The members of the committee are Mr. Flynn (Chairperson), Ms. Friedman and Mr. Gillett.

### **Director Compensation**

Directors who are also employees of Chipotle do not receive compensation for their services as directors. Directors who are not employees of Chipotle received an annual retainer during 2015 of \$195,000, of which \$75,000 was paid in cash and \$120,000 was paid in restricted stock units representing shares of our common stock, based on the closing price of the stock on the grant date, which is the date of our annual shareholders meeting each year. Each director who is not an employee of Chipotle also received a \$2,000 cash payment for each meeting of the Board of Directors he or she attended and \$1,500 for each meeting of a committee of the Board of Directors he or she attended (\$750 in the case of telephonic attendance at an in-person committee meeting). Annual cash retainers are paid to the chairperson of each committee of the Board of Directors, in the following amounts for 2015: \$20,000 for the Audit Committee Chairperson, \$15,000 for the Compensation Committee Chairperson, \$10,000 for the Nominating and Corporate Governance Committee Chairperson, and \$5,000 for the chairperson of any other committee established by the Board of Directors unless otherwise specified by the Board. In 2015 we also began to pay an annual retainer of \$15,000 to the Lead Director. Additionally, directors are reimbursed for expenses incurred in connection with their service as directors, including travel expenses for meetings.

We have also adopted a requirement that each non-employee director is expected to own Chipotle common stock with a market value of five times the annual cash retainer within five years of the director’s appointment or election to the Board. All directors other than Mr. Musk, who was appointed to the Board in September 2013, and Mr. Gillett, who was appointed to the Board in March 2015, met this requirement as of December 31, 2015. Unvested restricted stock units received as compensation for Board service count as shares owned for purposes of this requirement.

The compensation of each of our non-employee directors in 2015 is set forth below.

NAME	FEES EARNED OR PAID IN CASH	STOCK AWARDS <sup>(1)</sup>	TOTAL
Albert S. Baldocchi	\$ 115,750	\$120,075	\$235,825
John S. Charlesworth	\$95,000	\$120,075	\$ 215,075
Neil W. Flanzraich	\$123,250	\$120,075	\$243,325
Patrick J. Flynn	\$ 117,750	\$120,075	\$237,825
Darlene J. Friedman	\$ 117,750	\$120,075	\$237,825
Stephen Gillett <sup>(2)</sup>	\$ 78,247	\$ 96,569	\$ 174,816
Kimbal Musk	\$ 83,750	\$120,075	\$203,825

(1) Reflects the grant date fair value under FASB Topic 718 of restricted stock units awarded for the equity portion of each director's annual retainer. Restricted stock units in respect of 189 shares of common stock (152 shares in the case of Mr. Gillett, who joined the Board in March) were granted to each non-employee director on May 13, 2015. The restricted stock units were valued at \$635.32, the closing price of our common stock on the grant date. The restricted stock units vest on the third anniversary of the grant date subject to the director's continued service as a director through that date. Vesting accelerates in the event of the retirement of a director who has served for a total of six years (including any breaks in service), or in the event the director leaves the Board following certain changes in control of Chipotle. Directors may elect in advance to defer receipt upon vesting of the shares underlying the restricted stock units. Each director serving as of December 31, 2015, other than Mr. Musk and Mr. Gillett, held 658 unvested restricted stock units as of that date; Mr. Musk held 501 unvested restricted stock units as of that date, and Mr. Gillett held 152 unvested restricted stock units as of that date.

(2) Mr. Gillett was appointed to the Board effective March 12, 2015.

## CORPORATE GOVERNANCE

Our Board of Directors has adopted a number of policies to support our values and provide for good corporate governance, including our Corporate Governance Guidelines, which set forth our principles of corporate governance; our Board committee charters; the Chipotle Mexican Grill, Inc. Code of Conduct, which applies to all Chipotle officers, directors and employees; and separate Codes of Ethics for our directors, our Co-Chief Executive Officers and our Chief Financial Officer/principal accounting officer. The Corporate Governance Guidelines, Code of Conduct, and each of the Codes of Ethics are available on the Investors page of our corporate website at [ir.chipotle.com](http://ir.chipotle.com) under the Corporate Governance link.

If we make any substantive amendment to, or grant a waiver from, a provision of the Code of Conduct or our Codes of Ethics that apply to our executive officers, we will satisfy the applicable SEC disclosure requirement by promptly disclosing the nature of the amendment or waiver on the Investors page of our website at [ir.chipotle.com](http://ir.chipotle.com) under the Corporate Governance link.

### Chairman of the Board

Mr. Ells, our founder and Co-Chief Executive Officer, also serves as Chairman of the Board. The Chairman of the Board presides at all meetings of the Board and exercises and performs such other powers and duties as may be

periodically assigned to him in that capacity by the Board or prescribed by our bylaws. We believe it is not only appropriate but also important for Mr. Ells to serve as Chairman in addition to serving as Co-Chief Executive Officer. As the founder of our company, he has since our inception been the principal architect of our corporate strategy and vision, and continues to be a primary driving force to keep our company innovative and striving for constant improvement. The Board believes that its oversight responsibilities can be most effectively fulfilled if the Board is led by that same driving force, and also believes that it is appropriate for Mr. Ells to lead the Board due to his being one of the largest individual shareholders of our company.

### Lead Director

Mr. Flanzraich was appointed Lead Director in September 2014. The Board believes that maintaining a Lead Director position held by an independent director ensures that our outside directors remain independent of management and provide objective oversight of our business and strategy. The Lead Director chairs Board meetings during any sessions conducted as executive sessions without employee directors or other employees being present, and also consults with the Chairman, the Co-Chief Executive Officers and the Chief Financial Officer on business issues and with the Nominating and Corporate Governance Committee on Board management. Other responsibilities of the Lead Director include (i) coordinating activities of the other independent Directors and serving as a liaison between the



Chairman and independent Directors; (ii) calling meetings of the independent Directors when determined to be necessary or appropriate; (iii) reviewing meeting agendas and consulting with the Chairman regarding agenda items; (iv) interviewing, along with the Chairman and the Chair and members of the Nominating and Corporate Governance Committee, all Director candidates and making recommendations to the Nominating and Corporate Governance Committee; (v) leading, in conjunction with the Nominating and Corporate Governance Committee, the annual Board performance self-evaluation process; (vi) advising the Nominating and Corporate Governance Committee on the composition of Board committees and selection of committee chairs; (vii) providing leadership to the Board if circumstances arise in which the roles of the Chairman and the Co-Chief Executive Officers may, or may be perceived to be, in conflict; (viii) considering Board succession planning matters; and (ix) participating in shareholder outreach efforts relating to executive compensation and corporate governance matters.

### **Board Performance Self-Evaluation Process**

The Chairman of the Nominating and Corporate Governance Committee oversees an annual evaluation process during which each director evaluates the Board as a whole and their individual contributions to the Board, and each member of the standing committees of the Board of Directors evaluates the committees on which he or she serves.

The committee self-evaluations consider whether and how well each committee has performed the responsibilities in its charter, whether the committee members possess the right skills and experience to perform their responsibilities, whether the meeting materials are effective, and other matters. The individual director evaluations consider, among other factors, (i) the extent to which directors understand Chipotle's products, markets and business initiatives; (ii) the extent to which individual director experience, information and insight contribute to the effectiveness of the Board; and (iii) the availability of training and development opportunities, if necessary, to enhance individual contributions to the Board. The Board self-evaluations consider whether and how the Board has performed the responsibilities in our Corporate Governance Guidelines, evaluate the composition of the Board and its committees, and assess the quality of meetings, agendas, presentations and meeting materials.

For 2015, the Chairman of the Nominating and Corporate Governance Committee conducted an interview with each director to discuss the matters described above, and to

conduct individual director self-evaluations and identify any other issues regarding Board or committee performance. The results of these discussions were then compiled and presented in discussions with the full Board. In some years, the Board self-evaluation also results in changes to the Board's policies, procedures and priorities in order to best enable the Board to discharge its oversight responsibilities.

### **How to Contact the Board of Directors**

Any shareholder or other interested party may contact the Board of Directors, including the Lead Director or the non-employee directors as a group, or any individual director or directors, by writing to the intended recipient(s) in care of Chipotle Mexican Grill, Inc., 1401 Wynkoop Street, Suite 500, Denver, Colorado, 80202, Attention: Corporate Secretary. Any communication to report potential issues regarding accounting, internal controls and other auditing matters will be directed to the Audit Committee. Our corporate Secretary or general counsel, or their designees, will review and sort communications before forwarding them to the addressee(s), although communications that do not, in the opinion of the Secretary, our general counsel or their designees, deal with the functions of the Board or a committee or do not otherwise warrant the attention of the addressees may not be forwarded.

### **Executive Sessions**

Non-management directors met in executive session without management at the end of each regularly-scheduled Board meeting during 2015. The Lead Director chaired the non-employee executive sessions of the Board held during 2015. The Board expects to conduct an executive session limited to non-employee Board members at each regularly-scheduled Board meeting during 2016, and independent directors may schedule additional sessions in their discretion.

At regularly-scheduled meetings of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, executive sessions are generally held at the end of each meeting, with only the committee members or the committee members and their advisors present, to discuss any topics the committee members deem necessary or appropriate.

### **Director Nomination Process**

The Nominating and Corporate Governance Committee is responsible for establishing criteria for nominees to serve on our Board, screening candidates, and recommending for approval by the full Board candidates for vacant Board positions and for election at each annual meeting of shareholders. The committee's policies and procedures for



consideration of Board candidates are described below. Each member of the Board is a nominee for election as a director at this year's annual meeting, and was recommended to the Board as a nominee by the Nominating and Corporate Governance Committee.

The committee considers candidates suggested by its members, other directors, senior management and shareholders. The committee is also authorized under its charter to retain, at our expense, search firms, consultants, and any other advisors it may deem appropriate to identify and screen potential candidates. The committee may also retain a search firm to evaluate and perform background reviews on director candidates, including those recommended by shareholders. Any advisors retained by the committee will report directly to the committee.

### ***Candidate Qualifications and Considerations***

The committee seeks to identify candidates of high integrity who have a strong record of accomplishment and who display the independence of mind and strength of character necessary to make an effective contribution to the Board and to represent the interests of all shareholders. Candidates are selected for their ability to exercise good judgment and to provide practical insights and diverse perspectives. In addition to considering the Board's and Chipotle's needs at the time a particular candidate is being considered, the committee considers candidates in light of the entirety of their credentials, including:

- Their integrity and business ethics;
- Their strength of character and judgment;
- Their ability and willingness to devote sufficient time to Board duties;
- Their potential contribution to the diversity and culture of the Board;
- Their educational background;
- Their business and professional achievements and experience and industry background, particularly in light of our principal business and strategies, and from the standpoint of alignment with our vision and values;
- Their independence from management, including under requirements of applicable law and listing standards, and any potential conflicts of interest arising from their other business activities; and
- Relevant provisions of our Corporate Governance Guidelines.

These factors may be weighted differently depending on the individual being considered or the needs of the Board at the time. We do not have a particular policy regarding the diversity of nominees or Board members. The Board does believe that diverse membership with varying perspectives and breadth of experience is an important attribute of a well-functioning Board; diversity (whether based on factors commonly associated with diversity such as race, gender, national origin, religion, or sexual orientation or identity, as well as on broader principles such as diversity of perspective and experience) is one of many elements that will be considered in evaluating a particular candidate. Search firms with which we work to identify potential Board nominees will be instructed to specifically focus on identifying candidates that would, in addition to bringing particular skills and experience to the Board, also add to the gender and/or ethnic diversity on the Board.

### ***Consideration of Shareholder-Recommended Candidates and Procedure for Shareholder Nominations***

Shareholders wishing to recommend candidates to be considered by the Nominating and Corporate Governance Committee must submit to our corporate Secretary the following information: a recommendation identifying the candidate, including the candidate's contact information; a detailed resume of the candidate and an autobiographical statement explaining the candidate's interest in serving on our Board; and a statement of whether the candidate meets applicable law and listing requirements pertaining to director independence. Candidates recommended by shareholders for consideration will be evaluated in the same manner as any other candidates, as described below under "Candidate Evaluation Process," and in view of the qualifications and factors identified above under "Candidate Qualifications and Considerations."

Under our bylaws, shareholders may also nominate candidates for election as a director at our annual meeting. To do so, a shareholder must comply with the provisions of our bylaws regarding shareholder nomination of directors, including compliance with the deadlines described under "Other Business and Miscellaneous - Shareholder Proposals and Nominations for 2017 Annual Meeting - Bylaw Requirements for Shareholder Submission of Nominations and Proposals" on page 64.

### ***Candidate Evaluation Process***

The committee initially evaluates candidates in view of the qualifications and factors identified above under "Candidate Qualifications and Considerations," and in doing so may consult with the Chairman, the Lead Director, other

directors, senior management or outside advisors regarding a particular candidate. The committee also takes into account the results of recent Board and Board committee self-evaluations and the current size and composition of the Board, including expected retirements and anticipated vacancies. In the course of this evaluation, some candidates may be eliminated from further consideration because of conflicts of interest, unavailability to attend Board or committee meetings or other reasons. Following the initial evaluation, if one or more candidates were deemed worthy of further consideration, the committee would arrange for interviews of the candidates. To the extent feasible, candidates would be interviewed by the Chairman, the Co-Chief Executive Officers and a majority of committee members, and potentially other directors as well. The results of these interviews would be considered by the committee in its decision to recommend a candidate to the Board. Those candidates approved by the Board as nominees are named in the proxy statement for election by the shareholders at the annual meeting (or, if between annual meetings, one or more nominees may be elected by the Board itself if needed to fill vacancies, including vacancies resulting from an increase in the number of directors).

### **Policies and Procedures for Review and Approval of Transactions with Related Persons**

We recognize that transactions in which our executive officers, directors or principal shareholders, or family members or other associates of our executive officers, directors or principal shareholders, have an interest may raise questions as to whether those transactions are consistent with the best interests of Chipotle and our shareholders. Accordingly, our Board has adopted written policies and procedures requiring the Audit Committee to approve in advance, with limited exceptions, any transactions in which any person or entity in the categories named above has any material interest, whether direct or indirect, unless the value of all such transactions in which a related party has an interest during a year total less than \$10,000. We refer to such transactions as “related person transactions.” Current related person transactions to which we are a party are described on page 63.

A related person transaction will only be approved by the Audit Committee if the committee determines that the related person transaction is beneficial to us and the terms of the related person transaction are fair to us. No member of the Audit Committee may participate in the review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person.

### **Role of the Board of Directors in Risk Oversight**

While our executive officers and various other members of management are responsible for the day-to-day management of risk, the Board of Directors exercises an oversight role with respect to risk issues facing our company, principally through considering risks associated with our company strategy as part of its oversight of our overall strategic direction, as well as delegation to the Audit Committee of the responsibility for evaluating enterprise risk issues. Under the terms of its charter, the Audit Committee discusses with management, our internal auditors and our independent auditors our major risk exposures, whether financial, operating or otherwise, as well as the adequacy and effectiveness of steps management has taken to monitor and control such exposures (including, for instance, our internal control over financial reporting). The Audit Committee’s oversight of risk management includes its review each year of an annual risk assessment conducted by our internal audit department, which functionally reports to the Audit Committee. The Audit Committee also recommends from time to time that key identified risk areas be considered by the full Board, and individual Board members also periodically ask the full Board to consider an area of risk. In those cases the Board considers the identified risk areas at its regularly-scheduled meetings, including receiving reports from and conducting discussions with the appropriate management personnel.

### **Enhanced Oversight of Food Safety Risks**

In the wake of food-borne illness incidents that had a significant negative impact on our business during 2015 and into 2016, the Audit Committee and management agreed on additional procedures to enhance the committee’s oversight over food safety risks. This enhanced oversight will involve increased reporting to the Audit Committee regarding food safety-related matters, as well as participation by one or more members of the Board in certain food safety audits, trainings, and other activities. In light of his extensive background in operations for large-scale restaurant enterprises, Mr. Charlesworth has been designated as the principal liaison to the Audit Committee in connection with its enhanced food safety oversight role.

### **Board Leadership Structure and Risk Oversight**

The Board believes our current leadership structure facilitates its oversight of risk by combining independent leadership through the Lead Director, independent Board committees, and majority independent Board composition, with an experienced Chairman and Co-Chief Executive Officer and additional Co-Chief Executive Officer with

# Proposal 1

(continued)

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intimate knowledge of our business, industry and challenges. The Co-Chief Executive Officers' in-depth understanding of these matters and levels of involvement in the day-to-day management of Chipotle allow them to promptly identify and raise key risks to the Board, call special meetings of the Board when necessary to address critical issues, and focus the Board's attention on areas of

concern. This is effectively balanced by the independent oversight of the Lead Director, independent Board committees, and independent directors as a whole, who can objectively assess the risks identified by the Board or by management, as well as management's effectiveness in managing such risks.

## An Advisory Vote to Approve the Compensation of our Executive Officers as Disclosed in this Proxy Statement

As required by Section 14A of the Securities Exchange Act of 1934, we are asking shareholders to cast an advisory vote to approve the compensation of our executive officers as disclosed in this proxy statement. This proposal, commonly known as a “say-on-pay” proposal, gives shareholders the opportunity to endorse or not endorse our executive compensation programs and policies and the compensation paid to our executive officers. We have committed to holding say-on-pay votes at each year’s annual meeting, until at least the annual meeting to occur in 2017.

### 2015 Executive Compensation

In response to the say-on-pay vote held at our annual meeting in May 2014 and prior to making decisions regarding executive compensation for 2015, our Compensation Committee and management team had extensive dialogue with our shareholders, including contacting shareholders representing nearly two-thirds of our outstanding common stock. Changes we made in our executive compensation following the 2014 say-on-pay vote and our extensive shareholder engagement are summarized below. These changes were implemented for officer equity awards made in early 2015, and are reflected in the compensation disclosures appearing beginning on page 39.

- Reduced grant-date value of officer equity grants for 2015 by up to 41% versus the values on which last year’s say-on-pay vote was held.
- Determined size of 2015 equity awards by reference to market value of awards on grant date.
- Revised performance framework to base vesting on performance versus restaurant industry peer group.
- Implemented straightforward performance vesting schedule that is fully disclosed.
- Adopted three year cliff vesting, subject to performance versus restaurant industry peer group.
- Reduced Co-CEO equity amounts by greatest amount, while broadening pool of non-officer grantees, including restaurant managers.

We believe the Compensation Committee responded to the 2014 say-on-pay vote in a manner that addresses shareholder concerns, while continuing to incentivize our highly capable management team to achieve extraordinary results.

For 2015, as a result of the food-borne illness incidents that negatively impacted our results beginning in the fourth quarter of 2015, our results fell significantly short of our performance targets, resulting in no bonuses being paid to the executive officers under the AIP.

### 2016 Executive Compensation

In reviewing the compensation information included in this proxy statement, it is important to bear in mind that consistent with past practice, compensation decisions for 2015 were made early in the year, before our business was adversely impacted by food-borne illness incidents late in the year. Consequently, the amounts and awards reflected in the compensation tables beginning on page 54 **reflect decisions made before the significant downturn in our business late in the year. Disclosures of executive compensation decisions made in early 2016 in response to the food-borne illness incidents and related downturn in our business can be found beginning on page 39.**

### Say-on-Pay Resolution

The Compensation Committee of our Board of Directors believes that our executive compensation programs continue to emphasize performance-oriented components that encourage and reward strong operating and financial performance and stock price gains, and that have aligned the interests of our officer team with those of shareholders. Accordingly, our Board asks that you vote in favor of the following shareholder resolution:

“RESOLVED, that the compensation of the executive officers of Chipotle Mexican Grill, Inc. as disclosed pursuant to the Securities and Exchange Commission’s compensation disclosure rules, including the Compensation Discussion and Analysis section, compensation tables and related material in the company’s proxy statement, are hereby approved.”

The say-on-pay vote is advisory and therefore will not be binding on the Compensation Committee, the Board of Directors, or Chipotle. However, the Compensation Committee and Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

**The Board of Directors recommends a vote FOR the say-on-pay proposal.**

## Ratification of Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm

The Audit Committee, which is responsible for the appointment, compensation and oversight of our independent auditors, has engaged Ernst & Young LLP as independent auditors to audit our consolidated financial statements for the year ending December 31, 2016 and to perform other permissible, pre-approved services. As a matter of good corporate governance, we are requesting that shareholders ratify the Audit Committee's appointment of Ernst & Young LLP as independent auditors. If shareholders do not ratify the appointment of Ernst & Young LLP, the committee will reevaluate the appointment. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during fiscal 2016 if it determines that such a change would be in the best interests of Chipotle and our shareholders.

In addition to the selection of Ernst & Young LLP as independent auditors, the Audit Committee is involved in the selection of the lead audit partner. In conjunction with the mandatory rotation of lead engagement partners every five years, the Audit Committee and Ernst & Young LLP selected a new lead engagement partner for the 2016 audit. The members of the committee believe that the continued retention of Ernst & Young LLP to serve as independent external auditor is in the best interests of Chipotle and our shareholders.

The committee has adopted a policy which sets out procedures that the committee must follow when retaining the independent auditor to perform audit, review and attest engagements and any engagements for permitted non-audit services. This policy is summarized below under "Policy for Pre-Approval of Audit and Permitted Non-Audit Services" and will be reviewed by the Audit Committee periodically, but no less frequently than annually, for purposes of assuring continuing compliance with applicable law. All services performed by Ernst & Young LLP for the years ended December 31, 2015 and 2014 were pre-approved by the Audit Committee in accordance with this policy, following a determination by the committee that the fees to be paid to Ernst & Young LLP in each year, including in connection with non-audit services, were appropriate, necessary and cost-efficient in the management of our business, and did not present a risk of compromising the independence of Ernst & Young LLP as our independent auditors.

Ernst & Young LLP has served as our independent auditors since 1997. Representatives of Ernst & Young LLP are expected to be present at the annual meeting and will have an opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

### INDEPENDENT AUDITORS' FEE

The aggregate fees and related reimbursable expenses for professional services provided by Ernst & Young LLP for the years ended December 31, 2015 and 2014 were:

Fees for Services	2015	2014
Audit Fees <sup>(1)</sup>	\$ 754,899	\$606,825
Audit-Related Fees <sup>(2)</sup>	2,148	2,147
Tax Fees <sup>(3)</sup>	510,107	359,839
All Other Fees <sup>(4)</sup>	-	-
<b>Total Fees</b>	<b>\$1,267,154</b>	<b>\$ 968,811</b>

(1) Includes fees and expenses related to the fiscal year audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services were rendered. Audit fees also include fees and expenses, if any, related to SEC filings, comfort letters, consents, SEC comment letters and accounting consultations.

(2) Represents fees for a subscription to an Ernst & Young online service used for accounting research purposes.

(3) Represents fees for tax consulting and advisory services, and for 2015, tax compliance services as well.

(4) Represents reimbursement of costs and expenses in connection with litigation and regulatory proceedings.

**The Board of Directors recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2016.**

## AUDIT COMMITTEE REPORT

With regard to the fiscal year ended December 31, 2015, the Audit Committee (i) reviewed and discussed with management our audited consolidated financial statements as of December 31, 2015 and for the year then ended; (ii) discussed with Ernst & Young LLP, the independent auditors, the matters required by applicable standards of the Public Company Accounting Oversight Board, or PCAOB; (iii) received the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the PCAOB regarding Ernst & Young LLP's communications with the Audit Committee regarding independence; and (iv) discussed with Ernst & Young LLP their independence.

Based on the review and discussions described above, the Audit Committee recommended to our Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for filing with the SEC.

The Audit Committee:  
Albert S. Baldocchi, Chairperson  
John S. Charlesworth  
Neil W. Flanzraich  
Stephen Gillett

## POLICY FOR PRE-APPROVAL OF AUDIT AND PERMITTED NON-AUDIT SERVICES

The Board of Directors has adopted a policy for the pre-approval of all audit and permitted non-audit services proposed to be provided to Chipotle by its independent auditors. This policy provides that the Audit Committee must pre-approve all audit, review and attest engagements and may do so on a case-by-case basis or on a class basis if

the relevant services are predictable and recurring. Any internal control-related service may not be approved on a class basis, but must be individually pre-approved by the committee. The policy prohibits the provision of any services that the auditor is prohibited from providing under applicable law or the standards of the PCAOB.

Pre-approvals on a class basis for specified predictable and recurring services are granted annually at or about the start of each fiscal year. In considering all pre-approvals, the committee may take into account whether the level of non-audit services, even if permissible under applicable law, is appropriate in light of the independence of the auditor. The committee reviews the scope of services to be provided within each class of services and imposes fee limitations and budgetary guidelines in appropriate cases.

The committee may pre-approve a class of services for the entire fiscal year. Pre-approval on an individual service basis may be given or effective only up to six months prior to commencement of the services.

The committee periodically reviews a schedule of fees paid and payable to the independent auditor by type of covered service being performed or expected to be provided. Our Chief Financial Officer is also required to report to the committee any non-compliance with this policy of which he becomes aware. The committee may delegate pre-approval authority for individual services or a class of services to any one of its members, provided that delegation is not allowed in the case of a class of services where the aggregate estimated fees for all future and current periods would exceed \$500,000. Any class of services projected to exceed this limit or individual service that would cause the limit to be exceeded must be pre-approved by the full committee. The individual member of the committee to whom pre-approval authorization is delegated reports the grant of any pre-approval by the individual member at the next scheduled meeting of the committee.



## A Proposal to Approve an Amendment to the Amended and Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc. to Remove Restrictions Allowing Only the Board of Directors or the Chairman of the Board to Call Special Meetings of Shareholders

We are asking that shareholders approve an amendment to our Amended and Restated Certificate of Incorporation, as amended, to eliminate a provision limiting the ability to call special meetings of shareholders to only the Board of Directors or the Chairman of the Board.

As a result of the inclusion in our certificate of incorporation of the provision limiting the ability to call special meetings of shareholders, our shareholders do not presently have the right to call special meetings. If this proposal is approved, the resulting elimination of the limitations on the right to call special meetings of shareholders would provide us the flexibility to adopt provisions allowing shareholders to call special meetings of shareholders. In order to implement the right for shareholders to call special meetings, the Board has adopted bylaw amendments, the effectiveness of which is conditioned on shareholder approval of the amendment to our certificate of incorporation described in this proposal, that would provide shareholders the right to call special meetings of shareholders, with the terms and limitations further described below under “–Terms of Pending Bylaw Amendments Allowing Shareholders to Call Special Meetings.” Regardless of whether this proposal is approved, the Board of Directors and the Chairman of the Board will continue to have the ability to call special meetings of shareholders when, in the exercise of their fiduciary obligations, they determine appropriate.

The Board determined that the adoption of a right of shareholders to call special meetings, and hence the amendment described in this proposal, are appropriate following review of the policies and preferences of a number of our most significant shareholders, as well as a review of the shareholder proposal included in Proposal 8 below. The Board of Directors recognizes that providing shareholders the ability to call special meetings is viewed by many shareholders as a corporate governance best practice. The Board also believes, however, that special meetings of shareholders would likely result in our incurring substantial expenses, and may be disruptive to our business operations and therefore counter to the best interests of shareholders as a whole. Accordingly, the Board believes that special meetings of shareholders

should be extraordinary events that should be held only if a significant minority of shareholders is in agreement that a special meeting is appropriate, and also believes that such extraordinary meetings should not be held in close proximity to an annual meeting or when the matters to be addressed have been recently considered or are planned to be considered at another meeting.

The description above of the proposed amendment to our Amended and Restated Certificate of Incorporation, as amended, is qualified in its entirety by reference to and should be read in conjunction with the full text of our certificate of incorporation, as amended by the proposed Certificate of Amendment attached to this proxy statement as Appendix A. Furthermore, the description above of the pending amendments to our bylaws to implement the right of shareholders to call special meetings is qualified by reference to and should be read in conjunction with the more detailed description below of the bylaw amendments, which will only become effective if this proposal is approved.

**The Board of Directors recommends a vote FOR the proposed amendment to our Amended and Restated Certificate of Incorporation to remove the limitations on calling special meetings of shareholders.**

### **Terms of Pending Bylaw Amendments Allowing Shareholders to Call Special Meetings**

If the amendment described in this Proposal 4 is approved by shareholders, bylaw amendments conditionally adopted by our Board would become effective, and will provide that we will be required to call a special meeting of shareholders upon the written request of one or more holders who own shares representing at least 25% of the outstanding shares of our common stock. The bylaw amendments utilize a “net long” definition of stock ownership for purposes of determining whether shareholders requesting a special meeting satisfy the 25% ownership threshold. Under the “net long” definition, a person will be deemed to “own” only those shares of outstanding common stock as to which the person possesses (i) the sole power to vote or direct the voting; (ii) the sole economic incidents of ownership (including the right to profits and risk of loss); and (iii) the

# Proposal 4

(continued)



sole power to dispose of or direct the disposition of such shares. The "net long" definition excludes ownership of derivative securities, as detailed further in the bylaw provisions.

The bylaw amendments further provide that to be in proper form to call a special meeting of shareholders, the shareholder request(s) for a meeting must include certain information, including a statement of the purposes of the meeting and the reasons for conducting such business at the meeting, as well as an acknowledgement that any sales of shares by the requesting shareholder(s) will be deemed a revocation of the special meeting request in respect of the shares disposed of, and that such shares will no longer be counted for purposes of determining that the 25% ownership requirement has been satisfied. The requesting shareholder(s) will also be required to update the information provided to ensure that it is true and correct as of the record date for notice of the special meeting, and as of 15 days prior to such special meeting.

The bylaw amendments also excuse us from calling a shareholder-requested special meeting if we receive the request(s) for the meeting during the period beginning 90 days prior to the first anniversary date of the preceding annual meeting of shareholders and ending immediately following the final adjournment of the next annual meeting,

or if a substantially similar item was presented at any meeting of shareholders held within 180 days prior to our receipt of the special meeting request(s) or is included in our notice of a shareholder meeting that has been called but not yet held. In addition, if a shareholder-requested meeting is called, our Board may instead present the proposed item(s) of business at another meeting of shareholders held within 90 days after receipt of the shareholder request(s) for the special meeting.

If the conditions of the bylaw amendments are satisfied, we would be required to hold a shareholder-requested special meeting within 120 days after receipt of shareholder request(s) for the meeting, unless the proposed item(s) of business are presented at another meeting as described above. Business transacted at the meeting would be limited to the purpose(s) stated in the shareholder request(s) for a special meeting, and any other matters submitted to the meeting by our Board.

In the event the amendment described in this Proposal 4 is approved, these bylaw amendments would become effective without any further action by the Board or the shareholders. In that case, we will file the Amended and Restated Bylaws, as amended to include these provisions, as an exhibit to the Current Report on Form 8-K filed to report the results of the annual meeting.

## A Proposal to Approve Amendments to the Amended and Restated Bylaws of Chipotle Mexican Grill, Inc. to Provide for Shareholder Access to the Company's Proxy Materials for Shareholder-Nominated Candidates for Election to the Board of Directors

We are asking that shareholders approve amendments to our Amended and Restated Bylaws to provide a means for shareholders to include shareholder-nominated director candidates in our proxy materials for annual meetings of shareholders, which is commonly known as "proxy access." Proxy access for U.S. publicly traded companies was virtually nonexistent prior to 2012, when rules of the SEC first allowed shareholders to make advisory proposals asking companies to adopt proxy access provisions. Since that time, a number of companies have adopted proxy access bylaws, and the Board and its advisors have actively monitored developments in this area. The Board began to seriously consider the possible adoption of a proxy access bylaw following receipt of a shareholder proposal on this topic in late 2014.

It is important to note that, irrespective of this proposal or the shareholder proposal included as Proposal 6, shareholders already have a meaningful voice in electing directors at Chipotle. As described on page 16, we allow shareholders to recommend candidates for the Board to our Nominating and Corporate Governance Committee, and our Amended and Restated Bylaws allow shareholders to formally nominate candidates for election to the Board by following the procedures set forth in the bylaws. Additionally, the federal securities laws enable shareholders to solicit proxies for their own nominees. Notably, no shareholder has ever recommended a candidate to our Nominating and Corporate Governance Committee or sought to nominate a candidate for election under our bylaws. Shareholders also have significant influence over director elections as a result of our implementation of majority voting for uncontested director elections, and the completion of the phase-out of our classified Board, in each case effective with this year's annual meeting.

However, recognizing that proxy access has come to be viewed by many (though not all) investors as a good governance practice, our Board reviewed and considered the issue and approved the terms of this proposal as those the Board believes to be most appropriate for Chipotle at the present time. The proposal provides for a proxy access bylaw under which a shareholder or group of not more than

20 shareholders owning an aggregate of not less than 5% of our outstanding common stock for a minimum of three years may nominate candidates for election to our Board at an annual meeting, and require us to list such candidates in our proxy materials for the meeting. The proposal further provides that such proxy access nominees will be limited to a number of candidates not exceeding 20% of our Board.

The non-binding shareholder proposal in Proposal 6 calls for us to adopt a 3%/three year ownership standard, would not limit the number of shareholders who could aggregate their holdings for purposes of meeting the ownership standard, and calls for a limit on the number of proxy access candidates of 25% of our Board. Our Board believes that the higher ownership threshold, restrictions on shareholders aggregating ownership of shares, and lower cap on the number of shareholder nominees that are proposed in this proposal are more appropriate for Chipotle and in shareholders' best interests because, among other things:

- Allowing proxy access with lesser ownership requirements and other precautions than those included in this proposal may encourage potentially costly and disruptive contested elections, which would be particularly inappropriate in circumstances in which shareholders seeking to make one or more nominations to our Board do not perceive sufficient benefits from the nomination(s) to justify such shareholders' incurring their own expenses to solicit proxies for their candidate(s);
- The limits on aggregation in this proposal allow a reasonable number of shareholders to join together to list a nominee in our proxy materials, while helping to provide assurance that proxy access will not be subject to abuse by short-term investors or investors without a substantial investment in our company;
- The limits included in this proposal on the total number of proxy access candidates that a shareholder may include in our proxy materials will help avoid a shareholder or group of shareholders having a level of influence on the makeup of our Board that is disproportionate to the level of share ownership of such shareholder or group of shareholders;

- Proxy access is a very recent development in the corporate governance of U.S. companies, and the vast majority of companies do not provide for shareholder proxy access at all, so it is appropriate to approach this issue with caution in order to see how these provisions actually operate in practice at companies that have implemented proxy access, and to allow for further development of market practices in this rapidly evolving area;
- Our long-term company performance has been outstanding, and it is not in the best interests of shareholders to facilitate potentially disruptive changes to a Board that has overseen consistently strong business results and the creation of significant shareholder value; and
- Our largest shareholders continue to hold a range of views regarding proxy access, including some holders who support one or more of the standards included in this proposal, those who support one or more of the standards included in Proposal 6, as well as holders who do not support proxy access at all, leading our Board to conclude that the standards included in this proposal are the best compromise among the various positions of the investors with whom we discussed the issue, the views of our internal and external advisors, and the beliefs of the Board in relation to this issue.

In deciding on the provisions to include in our binding proposal to adopt a proxy access bylaw, the Board also considered that under the standards included in this binding proposal, we believe that four of our existing shareholders would be eligible to use proxy access immediately and without aggregating with any other shareholders. In addition, numerous other shareholders would have the ability to use proxy access by aggregating holdings with other holders as permitted by the terms of the bylaw provisions being proposed herein. Accordingly, this proposal will, if approved, provide for a meaningful immediate right to a significant number of shareholders.

Because of the range of views of our shareholders and others regarding proxy access and the uncertainties surrounding how these provisions will affect companies that adopt them, and consistent with good governance practice, our Board decided to submit the proposed proxy access amendments to shareholders for approval. The amendments will not become effective unless approved by the holders of at least a majority of our issued and outstanding shares of common stock.

At our 2015 annual meeting of shareholders, holders of approximately 29% of our outstanding common stock

voted in favor of a proposal identical to this one. Holders of approximately 41% of our outstanding common stock voted in favor of a proposal substantially the same as Proposal 6.

A more detailed description of the proposed proxy access bylaw amendments is set forth below. This description is qualified in its entirety by reference to, and should be read in conjunction with, the full text of the proposed bylaw amendments, which are attached to this proxy statement as [Appendix B](#).

### **Terms of Proposed Proxy Access Bylaw**

**Shareholder eligibility.** Our proposed proxy access bylaw would permit any single shareholder or group of up to 20 shareholders who have maintained qualifying ownership of 5% or more of our outstanding common stock continuously for three years to nominate candidates for election to the Board and require that we list such nominees with the Board's nominees in our proxy statement for the annual meeting of shareholders. Proxy access will be unavailable to any shareholders at any special meeting of the shareholders.

**Number of shareholder-nominated candidates.** Under the proposed proxy access bylaw, a qualifying shareholder or group of shareholders would be permitted to nominate the greater of (i) one director or (ii) 20% of the Board of Directors, rounding down to the nearest whole number of board seats. If the Board decides to reduce the size of the Board after the nomination deadline, the 20% calculation will be applied to the reduced size of the Board, with the potential results that a shareholder-nominated candidate may be disqualified.

Nominating shareholders submitting more than one nominee would be required to rank their nominees in order. If the number of the shareholder-nominated candidates exceeds the greater of (i) one director or (ii) 20% of the Board, rounding down to the nearest whole number of Board seats, the highest ranking qualified individual from the list proposed by each nominating shareholder, beginning with the nominating shareholder with the largest qualifying ownership and proceeding through the list of nominating shareholders in descending order of qualifying ownership, will be selected for inclusion in the proxy materials until the maximum number is reached.

Shareholder-nominated candidates that the Board determines to include in the proxy materials as Board-nominated candidates will be counted against the greater of (i) one director or (ii) 20% maximum.

*Calculation of ownership.* In order to ensure that the interests of shareholders seeking to include director nominees in our proxy materials are aligned with those of our other shareholders, a nominating shareholder would be considered to own only the shares for which the shareholder possesses the full voting and investment rights and the full economic interest. Borrowed or hedged shares would not count as “owned” shares.

*Nominating procedure.* In order to provide adequate time to assess shareholder-nominated candidates, requests to include shareholder-nominated candidates in our proxy materials must be received no earlier than 150 days and no later than 120 days before the anniversary of the date that we issued our proxy statement for the previous year’s annual meeting of shareholders.

*Information required of all nominating shareholders.* Each shareholder seeking to include a director nominee in our proxy materials is required to provide certain information, including:

- proof of qualifying stock ownership as of a date within seven calendar days prior to the date of the submission and the record date for the annual meeting;
- the shareholder’s notice on Schedule 14N required to be filed with the SEC;
- the written consent of the shareholder nominee to being named in the proxy statement and serving as a director, if elected; and
- the information required by the advance notice provision of our bylaws.

Nominating shareholders are also required to make certain representations and agreements regarding:

- lack of intent to effect a change of control;
- intent to maintain qualifying ownership through the relevant annual meeting date;
- intentions with respect to maintaining qualifying ownership for one year after the meeting date;
- only participating in the solicitation of their nominee or Board of Director nominees; and
- complying with solicitation rules and assuming liabilities related to and indemnifying us against losses arising in connection with the nomination.

*Information required of all shareholder nominees.* Each shareholder nominee is required to provide the representations and agreements required of all nominees

for election as director, including representations and agreements regarding:

- such nominee not being a party or subject to, and refraining from entering into, any voting commitment not disclosed to us or that could limit or interfere with such nominee’s fiduciary duties as a director;
- refraining from entering into agreements, arrangements or understanding with any person or entity other than Chipotle with respect to compensation, reimbursement or indemnification for service as a director; and
- compliance with our policies and guidelines applicable to directors.

Shareholder nominees also must submit completed and signed questionnaires required of all of our directors and officers and provide consent to being named in our proxy statement as a nominee and to serving as a director if elected.

*Disqualification of shareholder nominees.* We will not be required to include any nominee information in our proxy materials for any director nominee submitted by shareholders:

- for which our Secretary receives a notice that a shareholder has nominated such person pursuant to the advance notice requirements for shareholder nominations or other business set forth in Article II, Section 9(a) of our bylaws;
- if the shareholder that has nominated such nominee has or is currently engaged in, or has been or is a “participant” in another person’s, “solicitation” within the meaning of Rule 14a-1(l) under the Securities Exchange Act of 1934 in support of the election of any individual as director at the annual meeting other than its nominee(s) or a nominee of our Board;
- if the nominee is or becomes a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity other than Chipotle, or is receiving or will receive any such compensation or other payment from any person or entity other than Chipotle, in each case in connection with service as a director on our Board;
- if the nominee is not independent under the listing standards of each principal U.S. exchange upon which our common stock is listed, any applicable rules of the SEC and any publicly disclosed standards used by our Board in determining and disclosing independence of our directors, in each case as determined by our Board;

- whose election would cause us to be in violation of our bylaws, our certificate of incorporation, as amended, the rules and listing standards of the principal U.S. exchanges upon which our common stock is traded, or any applicable state or federal law, rule or regulation;
- who is or has been, within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914;
- who is named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past 10 years;
- who is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933; or
- if the nominee or the applicable nominating shareholder provided information to us in respect to such nomination that was untrue in any material respect or omitted to state a material fact, as determined by our Board or any committee thereof.

*Supporting statement.* Shareholders will be permitted to include in our proxy statement a statement not exceeding 500 words in support of their nominees. We may omit any information or statement that we, in good faith, believe would violate any applicable law or regulation.

*Invalidation of shareholder nominations.* In the event a shareholder or group of shareholders making a nomination under this provision, or the nominee(s) of such shareholder or group of shareholders, violate the terms of the proxy access bylaw, such shareholder nomination(s) will be declared invalid and the shareholder or group of shareholders will be ineligible to make nominations under the proxy access bylaw for the next two annual meetings.

*Re-nomination of shareholder nominees.* Shareholder nominees who are included in our proxy materials but subsequently withdraw from or become ineligible for election at the meeting or do not receive at least 25% of the vote cast in the election would be ineligible for nomination under the proxy access bylaw for the next two annual meetings.

The Board believes that adopting the proxy access amendments to our Amended and Restated Bylaws as described above would provide benefits to our shareholders by allowing greater shareholder influence over the makeup of our Board while balancing the Board's concerns regarding potential abuse by parties who are not aligned with the long-term interests of all of our shareholders. Accordingly, the Board recommends an amendment to the Amended and Restated Bylaws to include the proxy access bylaw described above.

**The Board of Directors recommends a vote FOR the proposed amendment to our Amended and Restated Bylaws to provide for proxy access.**



Proposals 6 through 10 are shareholder proposals. If the shareholder proponent of each proposal, or representative who is qualified under state law, is present at the annual meeting and submits the applicable proposal for a vote, that proposal will be voted upon. The shareholder proposals and related supporting statements are included in this proxy statement as submitted by the proponents and we accept no responsibility for their contents. The Board's statements in opposition to each proposal are presented immediately following each proposal and supporting statement. The name and address of the proponent of each proposal and the amount of stock owned by such proponent will be promptly provided to any shareholder making an oral or written request for such information to our corporate Secretary at our headquarters.

## Proposal 6

### **AN ADVISORY VOTE ON A SHAREHOLDER PROPOSAL REQUESTING THAT WE ADOPT A BYLAW TO PROVIDE FOR SHAREHOLDER ACCESS TO THE COMPANY'S PROXY MATERIALS FOR SHAREHOLDER-NOMINATED CANDIDATES FOR ELECTION TO THE BOARD OF DIRECTORS**

#### **Resolved:**

Shareholders of Chipotle Mexican Grill, Inc. (the "Company") ask the board of directors (the "Board") to take the steps necessary to adopt a "proxy access" bylaw. Such a bylaw shall require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement (as defined herein) of any person nominated for election to the board by a shareholder or group (the "Nominator") that meets the criteria established below. The Company shall allow shareholders to vote on such nominee on the Company's proxy card.

The number of shareholder-nominated candidates appearing in proxy materials shall not exceed one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must:

- a) have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination;
- b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure"); and
- c) certify that (i) it will assume liability stemming from any legal or regulatory violation arising out of the Nominator's communications with the Company shareholders, including the Disclosure and Statement; (ii) it will comply with all applicable laws and regulations if it uses soliciting material other than the Company's proxy materials; and (iii) to the best of its knowledge, the required shares were acquired in the ordinary course of business and not to change or influence control at the Company.

The Nominator may submit with the Disclosure a statement not exceeding 500 words in support of each nominee (the "Statement"). The Board shall adopt procedures for promptly resolving disputes over whether notice of a nomination was timely, whether the Disclosure and Statement satisfy the bylaw and applicable federal regulations, and the priority to be given to multiple nominations exceeding the one-quarter limit.

#### **Supporting statement:**

We believe proxy access is a fundamental shareholder right that will make directors more accountable and enhance shareholder value. A 2014 CFA Institute study concluded that proxy access would "benefit both the markets and corporate boardrooms, with little cost or disruption" and could raise overall US market capitalization by up to \$140.3 billion if adopted market-wide. (<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2014.n9.1>)

The proposed terms are similar to those in vacated SEC Rule 14a-11 (<https://www.sec.gov/rules/final/2010/33-9136.pdf>). The SEC, following extensive analysis and input from companies and investors, determined that those terms struck the proper balance of providing shareholders with a viable proxy access right while containing appropriate safeguards.

A similar proposal received 49.9% of votes cast at the Company's 2015 annual meeting and similar bylaws have been adopted by more than 60 companies.

We urge shareholders to vote FOR this proposal.

## Statement in Opposition

This advisory proposal conflicts with the company's Proposal 5, a binding proposal calling for shareholder adoption of a proxy access bylaw with different parameters than those included in this proposal. The Board recommends that you vote AGAINST this proposal and FOR Proposal 5.

For the reasons set forth in Proposal 5, the Board believes that the company's binding proxy access proposal better balances the interests of all shareholders in having a strong voice on the Board, but also in avoiding potential disruption of a Board that has proven to be highly adept at ensuring the creation of shareholder value, than does this proposal.

**The Board of Directors recommends a vote AGAINST the shareholder proposal.**

## Proposal 7

### AN ADVISORY VOTE ON A SHAREHOLDER PROPOSAL REQUESTING ADOPTION OF A STOCK RETENTION POLICY FOR SENIOR EXECUTIVES

#### Resolved:

Shareholders of Chipotle Mexican Grill, Inc. (the "Company") urge the Compensation Committee of the Board of Directors (the "Committee") to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until reaching normal retirement age or terminating employment with the Company. For the purpose of this policy, normal retirement age shall be defined by the Company's qualified retirement plan that has the largest number of participants. The shareholders recommend that the Committee adopt a share retention percentage requirement of at least 50 percent of net after-tax shares. The policy should prohibit hedging transactions for shares subject to this policy which are not sales but reduce the risk of loss to the executive. This policy shall supplement any other share ownership requirements that have been established for senior executives, and should be implemented so as not to violate the Company's existing contractual obligations or the terms of any compensation or benefit plan currently in effect.

#### Supporting Statement:

Equity-based compensation is an important component of senior executive compensation at our Company. While we encourage the use of equity-based compensation for senior executives, we are concerned that our Company's senior executives are generally free to sell shares received from our Company's equity compensation plans. In our opinion, the Company's current share ownership guidelines for its senior executives do not go far enough to ensure that the Company's equity compensation plans continue to build stock ownership by senior executives over the long-term.

Our Company's share ownership guidelines require the co-Chief Executive Officers ("CEO") to hold 31,000 shares each. In comparison, co-CEO Steve Eills owns 246,802 shares and co-CEO Montgomery Moran owns 154,755 shares, as of March 2015 according to the 2015 proxy statement.

We believe that requiring senior executives to only hold shares equal to a set target loses effectiveness over time. After satisfying these target holding requirements, senior executives are free to sell all the additional shares they receive in equity compensation.

# Shareholder Proposals

(continued)



Our proposal seeks to better link executive compensation with long-term performance by requiring a meaningful share retention ratio for shares received by senior executives from the Company's equity compensation plans. Requiring senior executives to hold a significant percentage of shares obtained through equity compensation plans until they reach retirement age will better align the interests of executives with the interests of shareholders and the Company. A 2009 report by the Conference Board Task Force on Executive Compensation observed that such hold-through-retirement requirements give executives "an ever growing incentive to focus on long-term stock price performance as the equity subject to the policy increases" (available at [http://www.conference-board.org/pdf\\_free/ExecCompensation2009.pdf](http://www.conference-board.org/pdf_free/ExecCompensation2009.pdf)).

We urge shareholders to vote FOR this proposal.

## Statement in Opposition

The proponent of this proposal is correct that equity-based compensation is an important component of our executive compensation programs. The proponent also correctly notes that we have adopted guidelines that require our executive officers to maintain significant equity ownership in our company. However, the proponent suggests that the interests of our officers are not sufficiently aligned with shareholder interests, and appears to ignore our strong performance over the years, both in terms of the growth and profitability of our business and our creation of shareholder value. We believe these results have been attributable, at least in part, to our officers having the opportunity to realize significant rewards when our performance is strong. We further believe that this proposal, which would put restrictions on our officers' ability to realize such rewards, would undermine, rather than improve, the alignment of officer interests with those of our shareholders.

Taking these considerations into account, our Board does not believe that the policy being advanced in this proposal is appropriate, or is worth the risk of significant unintended consequences that would accompany such a policy. Accordingly, the Board recommends that you vote AGAINST the proposal. A more detailed explanation of the Board's reasoning follows.

*Chipotle's officers have an incredibly strong interest in Chipotle's long-term performance.* Reflected below are the stock ownership guidelines applicable to each of our officers, as well as the actual share ownership of each officer, as of March 14, 2016 in both number of shares and in dollar value. These numbers exclude the value of shares underlying vested and unvested equity compensation awards held by the officers, which further increase each officer's financial interest in Chipotle's success.

Officer Name	Ownership Guideline	Shares Owned	Dollar Value of Shares Owned <sup>(1)</sup>
Steve Ells	31,000	196,802	\$101,496,695
Monty Moran	31,000	154,755	\$ 79,811,796
Jack Hartung	7,000	30,392	\$ 15,674,066
Mark Crumpacker	3,000	3,000	\$ 1,547,190

(1) As of March 14, 2016.

Notably, the vesting and payout of the equity compensation awards made to the executive officers in 2015 and 2016 (which, again, are not reflected above) have been based on a three-year performance period. Our Compensation Committee believes this three-year performance period results in strong alignment of the officers' interests with those of shareholders as a whole, as well as significant retention value from the awards. Moreover, to further align the interests of our officers with those of our shareholders, we prohibit both hedging and pledging of shares of our stock by our officers and the members of our Board of Directors. This approach to executive share ownership is consistent with a vast majority of publicly-traded companies in the U.S.

The supporting statement for this shareholder proposal suggests that the interests of our officers need to be better aligned with those of shareholders. In our opinion, the significant ownership interests and other policies described above reveal that suggestion to be, at best, ill-informed.

At the same time, if we were to adopt a policy that required our officers to retain 50% of the net after-tax shares associated with all equity compensation awards received by the officers, our officers' ability to realize the value created when they drive increases in shareholder value, and to diversify their personal financial portfolios, may be adversely impacted. We don't believe such a policy would strike an appropriate balance between protecting shareholder interests and allowing our officers to attend to their personal financial situations.

*The policy being advocated in this shareholder proposal could have significant unintended consequences that would not be in the best interest of Chipotle or our shareholders.* One potential impact of a policy restricting our officers' ability to realize value from their equity compensation awards is the creation of an incentive for our officers to terminate their employment relationship with us. Given the tremendous success we have achieved under this officer team, our Board believes that creation of such an incentive would be wildly imprudent. Additionally, such a restriction could lead to an overwhelming concentration of one or more officer's wealth in Chipotle stock, which could affect the officer's risk tolerance and profile in unpredictable ways that may be inconsistent with the long-term interests of Chipotle and our shareholders. Furthermore, the proposed limitations on officers' ability to realize value from their equity compensation awards may adversely affect our ability to attract and retain additional officers in the future.

For these reasons, the Board and the Compensation Committee believe that the policy proposed by this resolution would not be in the best interests of shareholders.

**The Board of Directors recommends a vote AGAINST the shareholder proposal.**

## Proposal 8

### AN ADVISORY VOTE ON A SHAREHOLDER PROPOSAL REGARDING SPECIAL MEETINGS OF THE SHAREHOLDERS

#### Special Shareholder Meetings

**Resolved:**

The shareholders of Chipotle Mexican Grill, Inc. (CMG) ('Company') hereby request that the Board of Directors take the steps necessary to amend our bylaws and each appropriate governing document to give holders in the aggregate of 10% of our outstanding common stock the power to call a special shareholder meeting. This proposal does not impact our board's current power to call a special meeting.

**Supporting Statement:**

Delaware law allows 10% of company shares to call a special meeting. A shareholder right to call a special meeting is a way to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle. This is important because there could be 15-months between annual meetings.

Currently, more than 60% of the companies in the S&P 500 have adopted company bylaws, articles of incorporation, or charter provisions to allow shareholders to call a special meeting.

This proposal topic won more than 70% support at Edwards Lifesciences and SunEdison in 2013. It may be possible to adopt this proposal by simply incorporating this text into our governing documents:

"Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chairman of the Board or the President, and shall be called by the Chairman of the Board or President or

Secretary upon the order in writing of a majority of or by resolution of the Board of Directors, or at the request in writing of stockholders owning 10% of the entire capital stock of the Corporation issued and outstanding and entitled to vote.”

We urge the Board to join the mainstream of major U.S. companies and establish a right for shareholders to call a special meeting.

Please vote for: Special Shareowner Meetings - Proposal 8

## Statement in Opposition

This advisory proposal conflicts with the company’s Proposal 4, a binding proposal calling for shareholders to approve amendments to our certificate of incorporation, as amended, to remove restrictions on the right to call special meetings of shareholders. In the event Proposal 4 is approved, bylaw provisions previously adopted by our Board, contingent upon shareholder approval of the amendment called for in Proposal 4, will become effective. Those bylaw provisions give shareholders the right to call special meetings, with different parameters than those called for in this shareholder proposal and subject to additional terms and conditions, as further described in Proposal 4. The Board recommends that you vote AGAINST this proposal and FOR Proposal 4.

Approval of Proposal 4 would entitle shareholders with a significant economic interest in our common stock to request that the company call a special meeting, while limiting the ability of a small minority of shareholders to utilize the mechanism of special meetings to advance their own interest, which may not be shared more broadly by Chipotle’s shareholders.

**The Board of Directors recommends a vote AGAINST the shareholder proposal.**

## Proposal 9

### **AN ADVISORY VOTE ON A SHAREHOLDER PROPOSAL REQUESTING CHIPOTLE TO ISSUE AN ANNUAL SUSTAINABILITY REPORT MEETING SPECIFIED CRITERIA**

#### **Whereas:**

Managing and reporting environmental, social and governance (ESG) business practices helps companies compete in a business environment characterized by finite natural resources, changing legislation, and heightened public expectations. Transparent, substantive reporting allows companies to gain strategic value from existing sustainability efforts and identify emerging risks and opportunities. ESG issues can pose significant risks to business. Without proper disclosure, investors and other stakeholders cannot adequately ascertain how the company is managing these risks and opportunities.

Proponents believe that the recent E.coli outbreaks traced to several Chipotle restaurants warrant greater transparency about our company’s supply chain management systems. Despite Chipotle’s high profile and laudable commitments to “serving Food with Integrity” and environmental sustainability, it discloses very limited information on its policies and progress toward achieving these objectives.

The link between strong sustainability management and value creation is increasingly evident. A 2012 Deutsche Bank review of 100 academic studies, 56 research papers, two literature reviews, and four meta-studies on sustainable investing found 89% of the studies demonstrated that companies with high ESG ratings showed market-based outperformance.

According to KPMG, “Corporate responsibility reporting is now undeniably a mainstream business practice worldwide, undertaken by almost three quarters (71 percent) of the 4,100 companies surveyed in 2013.” The Governance and Accountability Institute reports that 75% of the S&P 500 published a corporate sustainability report in 2014.

McDonalds, Darden Restaurants, Dunkin Brands and Starbucks all publish sustainability reports.

## Resolved:

Shareholders request Chipotle issue an annual sustainability report describing the company's short- and long-term responses to ESG-related issues. The report should include objective quantitative indicators and goals relating to each issue where feasible, be prepared at a reasonable cost, omit proprietary information, and be made available to shareholders by October 2016.

## Supporting Statement:

The report should address relevant policies, practices, metrics and goals on topics such as: greenhouse gas emissions, pesticide use management, food safety waste minimization, energy efficiency, labor standards and practices, and other relevant impacts.

We recommend Chipotle consider using the GRI Sustainability Reporting Guidelines to prepare the report. The GRI is an international organization developed with representatives from the corporate, investor, environmental, human rights and labor communities. The Guidelines cover environmental impacts, labor practices, human rights, product responsibility, and community impacts. The Guidelines provide a flexible reporting system allowing Chipotle to report on those areas most relevant to its operations. Seventy eight percent of reporting companies worldwide refer to the GRI reporting guidelines in their corporate responsibility reports (KPMG.)

We also recommend Chipotle evaluate the Equitable Food Initiative, a collaborative effort of retailers, workers and growers focused on reducing risks in food supply chains, including food safety risks. Its standard was adapted to reduce duplication of other industry-leading certifications and includes Costco and Bon Appetit as project partners.

## Statement in Opposition

Through our constant efforts to expand our Food With Integrity mission, we believe Chipotle is driving more positive change in the nation's food supply than any other restaurant company. Today, we serve more meat that has been raised responsibly (by which we mean from animals raised in a humane way, and without the use of non-therapeutic antibiotics or added hormones) than any other restaurant company. We are the only national restaurant company with a significant stated commitment to serving local and organically grown produce. We believe we were the first national restaurant company to serve dairy products (cheese and sour cream) made only with milk from cows that are not treated with the synthetic hormone rBGH. Much of the cheese and sour cream we serve is made with milk from pasture-raised dairy cattle. And in 2015 we became the first national restaurant company to use only non-GMO ingredients in our food.

While numerous companies have published reports of the type being advocated in this shareholder proposal, Chipotle has made a deliberate decision not to report in this fashion, preferring to devote our resources instead to taking actions, adopting practices, and communicating these efforts in areas that have a positive impact on the sustainability of our business. In this way, our commitment to Food With Integrity directly impacts many of the issues associated with sustainable agriculture - from the humane treatment of farm animals, to overuse of antibiotics on animals, pesticide use, and the welfare of workers, environmental degradation and beyond.

As just a few examples of our accomplishments that we believe have positively impacted the environmental footprint and overall sustainability of our business:

- Over 95% of our meat purchased in 2015 adhered to the standards we require for our Responsibly Raised® brand (coming from animals that are raised in a humane way, without the use of non-therapeutic antibiotics or added hormones).
- In 2015 we exceeded our goal of purchasing 24 million pounds of local produce (by which we mean produce grown or raised within 350 miles of the restaurant at which it was served). This was an increase of 20% from our 2014 goal of serving 20 million pounds of local produce.



- We purchased over 4 million pounds of organic black beans and over 2.2 million pounds of organic pinto beans in 2015, and we also supported the growth of organic farms by purchasing approximately 3.2 million pounds of transitional-acreage beans from growers undergoing conversion to organic certified land. We also purchased over 4.2 million pounds of Food Alliance-certified black beans and over 2.2 million pounds of Food Alliance-certified pinto beans in 2015.
- We purchased over 520,000 pounds of organic white rice and over 485,000 pounds of organic brown rice in 2015. We also supported the expansion of farm land cultivated organically by purchasing over 53,000 pounds of transitional-acreage rice from growers undergoing conversion to organic certified land.
- We also purchased over 5 million pounds of organically grown produce in 2015, including about 72% of our cilantro and about 88% of our oregano.
- Since late 2012, we have been a party to the Fair Food Premium Program of the Coalition of Immokalee Workers, or CIW.

And our commitment to sustainability is broader than simply focusing on food issues. We have a team dedicated to assessing and improving the environmental impact of our restaurant operations through key initiatives and projects in waste, energy and water. Here are a few examples of our accomplishments in those areas in 2015:

- We published multiple pieces on our website about our sustainability efforts, including pieces on our equipment donation program, our waste diversion program, and our efforts to reduce food waste in our restaurants. In 2016, we plan to publish additional content on our website, including disclosures about paper and packaging, energy usage, philanthropy, water usage, sustainable design, and composting.
- In 2015 we transformed over 1,000,000 pounds of waste into recycled material. Through strategic initiatives related to recycling and composting, we were able to increase diversion by 10%. This means that an additional 10% of our waste that previously was going to the landfill is now being recycled.
- We announced a goal of diverting 50% of all of our waste from landfill by 2020 comprised of 20% diversion via compost and 30% diversion via recycling.
- Currently 138 of our restaurants are recycling food via commercial compost. We are working to ensure that by 2020, over 500 of our restaurants will be recycling food via commercial compost. These programs are in addition to our existing food donation programs.
- Our paper and packaging purchasers work closely with our sustainability group in an effort to continually improve the environmental impact of our packaging. This equates to multiple changes in our packaging lineup each year, including (but not limited to) increased recycled content (both post and pre consumer), increased recyclability, and increased compostability.
- Since piloting an energy management program in 2012, we have been able to target certain equipment and behavior, and ultimately reduce our energy usage by 13% at restaurants participating in the program. In 2015, we expanded the pilot to roughly 100 additional restaurants throughout the country, and have reduced our energy usage by an average of 3,154 kWh per site per month. This program also allows us to gather meaningful data that we have used to create best practices at all of our restaurants, thus expanding the impact of the pilot.
- In 2015 we continued to refine the restaurant water usage baseline developed in 2014, through improved data analytics and indoor water sub-metering at a select group of restaurants. We used this additional data and insight to create a Water Best Practices guide for our restaurants, and to identify equipment-based opportunities for water savings. In 2016, we will continue to work with our landlords, vendors, and food safety partners to find new ways to reduce our water impact at the restaurant level without compromising our high food safety standards.

Our commitment to sustainability also extends beyond our restaurant business to the Chipotle Cultivate Foundation, a non-profit organization we formed in 2011 to expand Chipotle's philanthropic influence. The Chipotle Cultivate Foundation is dedicated to grantmaking to provide resources and promote good stewardship for farmers, promote better livestock husbandry, encourage regenerative agricultural practices, and foster better food literacy, cooking education and nutritious eating.

Notwithstanding our demonstrated commitment to sustainability, including through our Food With Integrity mission and the direct benefits it confers, we do not believe that a separate effort to generate, distribute, and update comprehensive reporting on our sustainability achievements represents an efficient or prudent use of our resources. We do report a number of key measures related to our Food With Integrity mission in press releases, SEC filings and our web site, and have expanded this type of disclosure in recent years. But we believe that preparing a sustainability report of the type proposed would involve significant additional expense and distraction, diverting time and resources from activities that can have direct benefits on the profitability and sustainability of our business, such as opening new restaurants, continuing to build and improve our supply chain, and making improvements in our restaurant design and operations. Moreover, we believe we would gain little from such a diversion of resources, as we believe our management teams already collect and rely on the information that is most appropriate for the management of our business, and that our existing disclosures provide information that is most useful to our shareholders. We think our shareholders generally agree, with holders of over two-thirds of the shares voting at the 2014 and 2015 annual meetings having voted AGAINST this same proposal.

Although we continue to believe the reporting being suggested in this proposal would not provide sufficient benefits to Chipotle or its shareholders to justify the costs, that should not be misunderstood as an indication that our Board or our company are not focused on environmental, social and governance issues. In resisting the proposal, we are merely resisting the requirement to comprehensively gather data and publish a report that we do not believe offers meaningful benefits. Instead, we believe our resources will be better devoted to continuing our commitment to changing the way the world thinks about and eats fast food, and to continuing to build shareholder value.

**The Board of Directors recommends a vote AGAINST the shareholder proposal.**

## Proposal 10

### **AN ADVISORY VOTE ON A SHAREHOLDER PROPOSAL REQUESTING THAT WE PREPARE A REPORT ON THE FEASIBILITY OF LINKING EXECUTIVE COMPENSATION TO SUSTAINABILITY PERFORMANCE**

#### **Link Executive Compensation to Sustainability Performance**

##### **Resolved:**

Shareholders request the Board Compensation Committee prepare a report assessing the feasibility of integrating sustainability metrics into the performance measures of senior executives under the Company's compensation incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term.

##### **Whereas:**

A large and diverse group of companies has integrated sustainability metrics into executive pay incentive plans, among them Unilever, Pepsi, Walmart, Group Danone and Mead Johnson.

Numerous studies suggest companies that integrate environmental, social and governance factors into their business strategy reduce reputational, legal and regulatory risks and improve long-term performance.

According to the largest study of CEOs on sustainability to date (CEO Study on Sustainability 2013, UN Global Compact and Accenture):

- 76 percent believe embedding sustainability into core business will drive revenue growth and new opportunities.
- 93 percent regard sustainability as key to success.
- 86 percent believe sustainability should be integrated into compensation discussions, and 67 percent report they already do.

A 2012 Harvard Business School study concluded that firms that adopted social and environmental policies significantly outperformed counterparts over the long-term, in terms of stock market and accounting performance.

In 2013, the Carbon Disclosure Project and Sustainable Insight Capital Management found companies with industry leading climate change positions exhibited better performance than peers, measured by return on equity, cash flow stability and dividend growth.

The Glass Lewis report *Greening the Green 2014: Linking Executive Pay to Sustainability*, finds a “mounting body of research showing that firms that operate in a more responsible manner may perform better financially...Moreover, these companies were also more likely to tie top executives incentives to sustainability metrics.”

A 2012 report by the United Nations Principles for Responsible Investment and the UN Global Compact found “the inclusion of appropriate Environmental, Social and Governance (ESG) issues within executive management goals and incentive schemes can be an important factor in the creation and protection of long-term shareholder value.”

A 2011 study of 490 global companies found that including sustainability targets in remuneration packages was sufficient to encourage sustainable development.

In 2013, CH2MHill found that firms that set tangible sustainability goals are more likely to tie executive compensation of the achievement of sustainability goals.

### **Supporting Statement:**

Effectively managing for sustainability offers positive opportunities for companies, and we believe should be a key area in which executives should be evaluated.

Linking sustainability metrics to executive compensation could reduce risks related to sustainability underperformance, incent employees to meet sustainability goals and achieve resultant benefits, and increase accountability. Examples of such metrics might include: greenhouse gas emissions measurements, energy and water consumption per unit of product output (or dollar of revenue), renewable energy consumption, volume of recycling, packaging used, and food and worker safety incidents.

### **Statement in Opposition**

As explained elsewhere in this proxy statement, including in the “Compensation Discussion and Analysis” section beginning on page 39, the Compensation Committee of our Board has carefully crafted an executive compensation program structured around performance measures that the committee believes are most important in driving the responsible, long-term growth of our business. The committee believes that this program strongly reinforces our pay-for-performance objectives, and therefore our Board does not believe that the report being sought in this shareholder proposal is necessary or warranted.

That is not to say that our Board does not believe sustainability is important. On the contrary, our entire Food With Integrity mission is closely aligned with the advancement of numerous sustainability-related concerns. Many of those

# Shareholder Proposals

(continued)



concerns – such as issues associated with the overuse of antibiotics, environmental issues created by certain animal confinement operations, excessive use of pesticides in agriculture, and more – have been key considerations in shaping our vision and strategy for Chipotle. But our ultimate goals are to grow our business responsibly and thereby create long-term shareholder value, and the Compensation Committee, its advisors and our Board are confident that our existing incentive compensation programs create strong incentives for our executive officers to accomplish those goals.

For these reasons, the Board believes that this proposal is not in the best interests of Chipotle or its shareholders.

**The Board of Directors recommends a vote AGAINST the shareholder proposal.**

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## EXECUTIVE OFFICERS

In addition to Steve Eells, our Chairman of the Board and Co-Chief Executive Officer, and Monty Moran, our Co-Chief Executive Officer, each of whose biographies are included under the heading “Information Regarding the Board of Directors,” our executive officers as of March 14, 2016, are as follows:

*John R. (Jack) Hartung*, 58, is Chief Financial Officer and has served in this role since 2002. In addition to having responsibility for all of our financial and reporting functions, Mr. Hartung also oversees IT; safety, security and risk; and compensation and benefits. Mr. Hartung joined Chipotle after spending 18 years at McDonald’s where he held a variety of management positions, most recently as Vice President and Chief Financial Officer of its Partner Brands Group. Mr. Hartung has a Bachelor of Science degree in accounting and economics as well as an MBA from Illinois State University.

*Mark Crumpacker*, 53, was appointed Chief Marketing Officer in January 2009 and as Chief Development Officer in October 2013, and on March 12, 2015, his title was changed to Chief Creative and Development Officer. From December 2002 until December 2008 Mr. Crumpacker was Creative Director for Sequence, LLC, a strategic design and marketing consulting firm he co-founded in 2002, and prior to that served as creative director and in other leadership roles for a variety of design and media companies. Mr. Crumpacker attended the University of Colorado and received his B.F.A. from the Art College of Design in Pasadena, California.

## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes the objectives and principles underlying our executive compensation programs, outlines the material elements of the compensation of our executive officers, and explains the Compensation Committee's determinations as to the actual compensation of our executive officers for 2015. In addition, this Compensation Discussion and Analysis is intended to put into perspective the tables and related narratives which follow it regarding the compensation of our executive officers.

### Letter from the Compensation Committee of our Board of Directors

Dear Fellow Shareholder,

2015 was a year marked by both highs and lows. On August 5th, the price of our common stock reached an all-time high of \$758.61 per share. However, beginning in the fourth quarter of 2015, a number of food-borne illness incidents associated with Chipotle restaurants, and related negative publicity, had a severe adverse impact on our sales and profitability. As a result of these business challenges, our stock price declined significantly.

Notwithstanding these challenges, Chipotle has been one of the great successes in the restaurant industry. The Compensation Committee and our Board of Directors continue to believe that our innovative company is led by talented entrepreneurs and visionaries. We have the utmost confidence in the abilities of this team to rebuild the shareholder value that was lost in late 2015 and early 2016, and to continue to grow the value of Chipotle.

As we wrote last year, the Compensation Committee believes the best way to drive outstanding shareholder value creation at Chipotle is to design compensation programs that motivate the unique entrepreneurial and innovative drive of our management team. These programs should reward success when the management team's efforts build shareholder value, and limit compensation when shareholder value declines and/or goals are not achieved. We have a history of demonstrating aligned pay for performance. Consistent with that history, due to the challenges and performance for 2015, our executive officers were not paid any cash bonuses for the year.

To respond to our 2014 say-on-pay vote, in early 2015 we engaged in significant outreach with shareholders representing about one-half of our outstanding stock. As a result, we made changes to our executive compensation structure including a new equity program. Specifically, we introduced and awarded performance shares with challenging relative metrics, including shareholder return, in lieu of the SOSARs we had previously used. Based on the shareholder outreach and these changes, our 2015 say-on-pay proposal was overwhelming approved by shareholders with over 95% support.

In light of the challenges faced by our company beginning in late 2015, the Compensation Committee reviewed the measures used in our new equity program to ensure that they continued to be appropriate. We had concerns that using 2015 year-end financials or stock price at the beginning of 2016 as the basis for relative performance evaluation for a 2016 performance share program could create a misalignment of shareholder returns and executive officer compensation. More specifically, we recognized that performance against the 2015 metrics might not translate into restoring lost shareholder value. In early 2016, we discussed some of these issues and potential equity program changes with our largest shareholders.

Following those discussions and additional analysis, for 2016, the performance shares will be solely tied to highly challenging absolute stock price performance goals over a three-year performance period that we believe aligns executive officer compensation with restoring shareholder value, and motivates the management team to further enhance value to our owners. The committee considered alternative performance metrics to be used for the 2016 performance shares, but ultimately concluded that restoring lost shareholder value was paramount. The 2016 performance share grant is discussed in greater detail below.

The members of the Compensation Committee would like to thank the shareholders with whom we spoke for their insights and candor. We value the support and input of our shareholders, and we look forward to continuing to have an open dialogue.

Neil Flanzraich, Lead Director and Chair of the Compensation Committee  
Darlene Friedman  
Pat Flynn



## Objectives of our Executive Compensation Program

The overarching objective of our executive compensation program is to motivate our entrepreneurial and innovative management team to create long-term shareholder value. Our success is driven by our people and their commitment to our brand. The Compensation Committee of the Board of Directors is responsible for designing and administering pay structures to achieve this objective. The committee considers multiple factors to ensure that our compensation programs are highly motivating, shareholder-aligned, and competitive with peer companies.

## Executive Compensation Program Components and Structures

Our executive compensation program is comprised of three primary components:

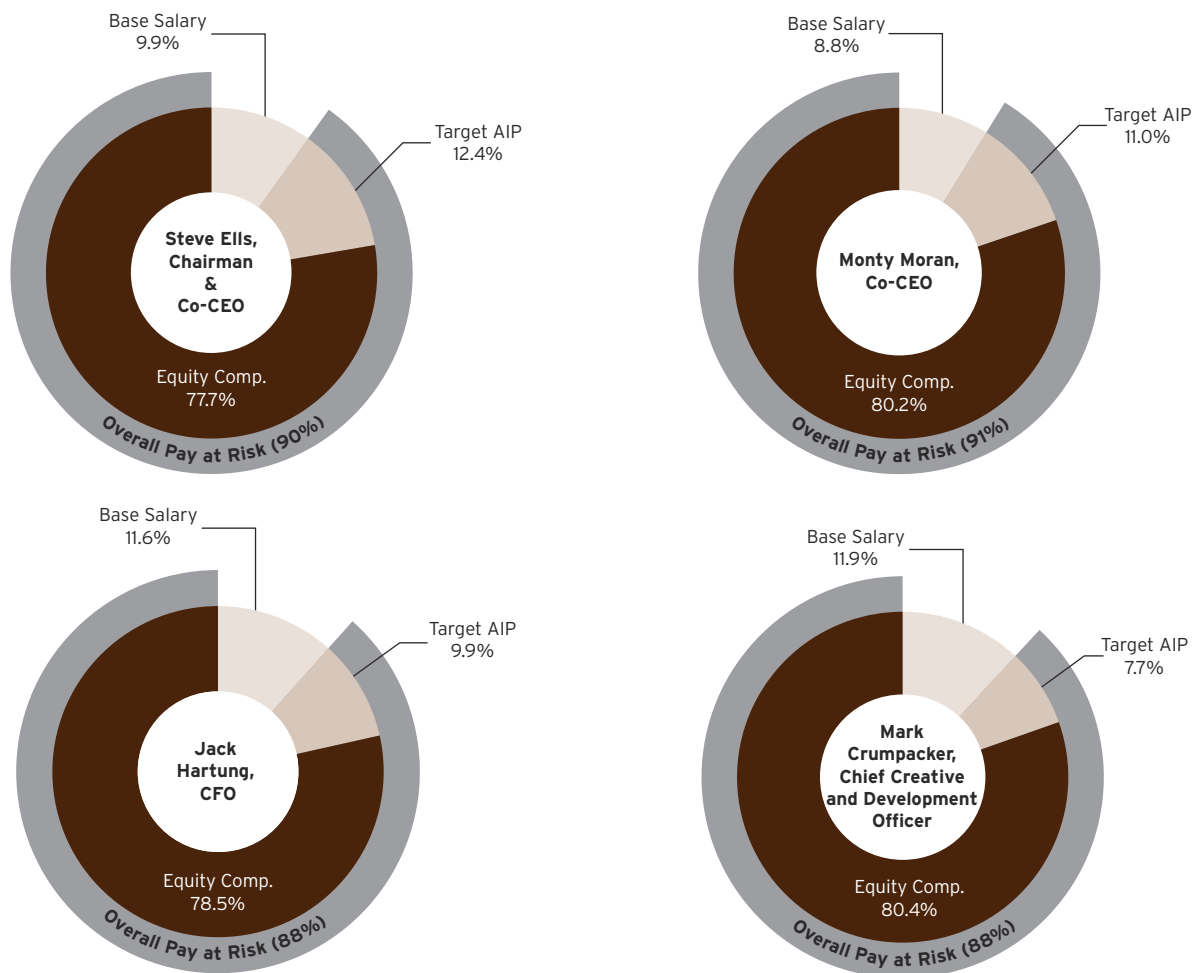
BASE SALARY	ANNUAL CASH BONUS	EQUITY COMPENSATION
<p>Determined subjectively each year based on each executive's contributions, individual performance, and level of experience.</p>	<p>Determined under our company-wide Annual Incentive Plan, or AIP, which provides for variable payouts based on achievement against operating and financial performance goals approved by the committee at the beginning of each year, as well as subjective evaluations of individual performance.</p>	<p>Aligns the incentives of our executive officers with shareholder interests and rewards the creation of shareholder value.</p> <ul style="list-style-type: none"> <li>For 2015, following the say-on-pay vote registered at our 2014 annual meeting of shareholders and extensive dialogue with investors, we introduced a new equity program for our executive officers consisting solely of performance share awards with vesting based on relative achievement of three different performance measures versus our restaurant industry peer group.</li> <li>For 2016, following significant stock price declines in late 2015 and early 2016, and after significant additional dialogue with investors, we introduced a different structure for the performance share awards than we used in 2015, with vesting of the 2016 awards to be based on restoration of shareholder value to approximate levels achieved prior to the food-borne illness issues that impacted us in the latter half of 2015.</li> </ul>
<p><b>Base salary decisions for 2015 we discussed beginning on page 47</b></p>	<p><b>As discussed further on page 49, no payouts were made to the executive officers under the AIP for 2015</b></p>	<p><b>Further details regarding 2015 and 2016 equity compensation awards can be found beginning on page 50.</b></p>

# Executive Officers and Compensation

(continued)



The Compensation Committee implements these components in a manner designed to place performance at the forefront of our overall executive compensation program. This is illustrated in the following graphics, which reflect the heavy emphasis placed on at-risk, performance-based pay elements (based on 2015 compensation, including annual base salary rate, target AIP bonus and grant date value of equity compensation awards):



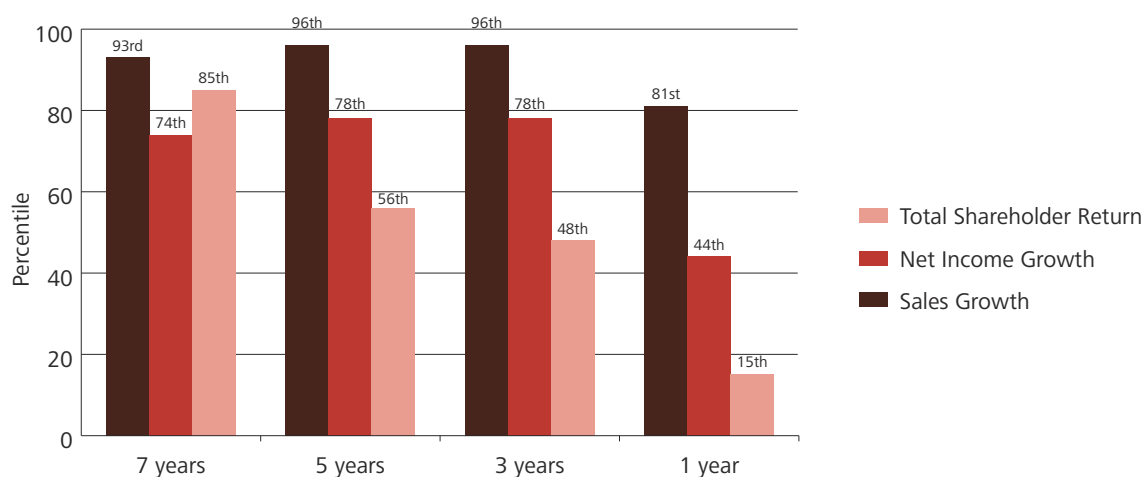
## Financial Highlights for 2015

Although we continued to grow our business in 2015, the challenges we faced in the second half of the year adversely impacted our sales and income growth as compared to past years.

	ANNUAL COMPANY PERFORMANCE					
	TOTAL RESTAURANTS	INCREASE FROM PRIOR YEAR	SALES (000's)	INCREASE FROM PRIOR YEAR	NET INCOME (000's)	INCREASE FROM PRIOR YEAR
2015	2,010	13%	\$ 4,501,223	10%	\$ 475,602	7%
2014	1,783	12%	\$ 4,108,269	28%	\$ 445,374	36%
2013	1,595	13%	\$ 3,214,591	18%	\$ 327,438	18%
2012	1,410	15%	\$ 2,731,224	20%	\$ 278,000	29%
2011	1,230	13%	\$ 2,269,548	24%	\$ 214,945	20%

Notwithstanding our disappointing 2015, our long-term performance relative to our restaurant industry peer group (the composition of which is further described below under “Overview of Executive Compensation Decisions - Market Data”) has been consistently strong. Our sales and net income growth have been in the top quartile of the peer group for each of the three, five and seven year periods ended December 31, 2015. Our total shareholder return over most of those periods was also strong, but was significantly impacted in 2015 by the decline in our stock price following the food-borne illness incidents. The following chart shows our relative performance in each of these areas as a percentile of the peer group, computed based on the compound annual growth rate of each measure (for the periods greater than one year).

### Performance Versus Peer Group - One, Three, Five and Seven Year Periods Ended December 31, 2015



### Key Outcomes and Changes Related to Executive Officer Compensation for 2015 and 2016

To respond to our 2014 say-on-pay vote, in early 2015 we engaged in significant dialogue with shareholders representing about one-half of our outstanding stock. As a result, we made changes to our executive compensation structure including a new equity program, as follows:

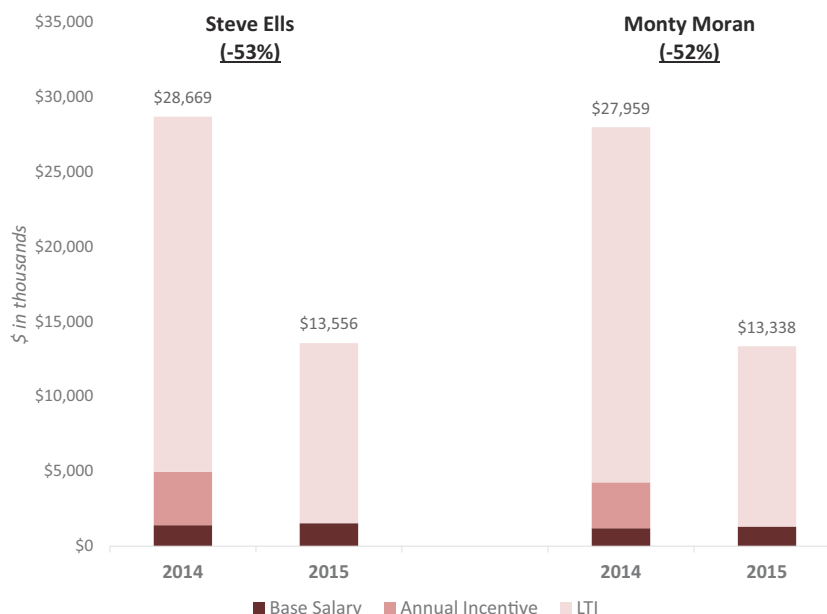
- 2015 equity compensation awards were denominated in performance shares (previously SOSARs were the primary equity compensation vehicle), with performance criteria comprised of three metrics based on relative performance versus our restaurant-industry peers.
- 2015 equity grant values decreased by 49.2% for our Co-CEOs and 24.5% (on average) for our other executive officers versus 2014 equity grant values.

Although we continued to grow our business in 2015, the challenges we faced in the second half of the year resulted in the following:

- No annual incentive bonuses were paid for 2015 performance.
- 2016 performance share awards are tied solely to highly challenging absolute stock price performance goals over a three-year performance period, which we believe aligns executive officer compensation with the restoration of shareholder value and motivates the management team to further enhance value to our owners.

## Co-CEO Pay for 2014 and 2015

The chart below compares the total direct compensation of our Co-CEOs for 2014 and 2015. Total direct compensation consists of base salary plus actual AIP payout plus grant date fair value of equity compensation awards. As shown in the chart, total direct compensation of the Co-CEOs dropped significantly year-over-year as a result of the lower value of the 2015 equity compensation awards and no AIP bonuses being paid for 2015.



### SIGNIFICANT COMPENSATION POLICIES AND PRACTICES

We pay for performance; the vast majority of total compensation is tied to performance measures or stock price performance.

We use multiple performance metrics, multi-year vesting schedules, and/or performance goals requiring sustained stock price performance, thus limiting unnecessary or excessive risk-taking.

We do not have "single trigger" provisions for the acceleration of vesting of outstanding equity awards following a change in control.

We do not have employment agreements with our officers, so have no "golden parachute" obligations to make cash change-in-control or severance payments, or to provide tax gross-ups on any such payments.

Equity awards provide for a clawback policy that, once regulatory requirements are finalized, will allow for the recovery of previously paid equity incentive compensation in the event of a financial restatement.

We have robust stock ownership guidelines for our officers and directors.

We do not allow hedging or pledging of shares of Chipotle common stock.

We do not reprice stock options or stock appreciation rights.

We engage an independent compensation consultant to advise the Compensation Committee, which is comprised solely of independent directors.

### Compensation Philosophy and Objectives

Our philosophy with regard to the compensation of our employees, including our executive officers, is to reinforce the importance of performance and accountability at the corporate, regional and individual levels. We strive to provide our employees with meaningful rewards while maintaining alignment with shareholder interests, corporate values, and important management initiatives. In setting and overseeing the compensation of our executive

officers, the Compensation Committee believes our compensation philosophy to be best effectuated by designing compensation programs and policies to achieve the following specific objectives:

- Attracting, motivating, and retaining highly capable executives who are vital to our short- and long-term success, profitability, and growth;

- Aligning the interests of our executives and shareholders by rewarding executives for the achievement of strategic and other goals that we believe will enhance shareholder value; and
- Differentiating executive rewards based on actual performance.

The committee believes that these objectives are most effectively advanced when a significant portion of each executive officer's overall compensation is in the form of at-risk elements such as incentive bonuses and long-term incentive-based compensation, which should be structured to closely align compensation with actual performance and shareholder interests.

The committee's philosophy in structuring executive compensation rewards is that performance should take into consideration our company performance in comparison to market-wide performance in our industry, as well as a subjective evaluation of each executive officer's performance. See "- Overview of Executive Compensation Determinations - Market Data" below.

In structuring and approving our executive compensation programs, as well as policies and procedures relating to compensation throughout our company, the committee also considers risks that may be inherent in such programs, policies and procedures. The committee has determined that it is not reasonably likely that our compensation programs, policies and procedures will have a material adverse effect on our company.

## Overview of Executive Compensation Determinations

In setting compensation for our executive officers, the committee assesses numerous factors, including the following primary considerations:

- company performance, focusing in particular on our sales growth, net income growth and total shareholder return in relation to other companies in our industry over the prior one, three and five years;
- individual officer performance, including discussions with our Co-Chief Executive Officers regarding the

performance of our other executive officers, and private meetings in executive session to discuss the performance of the Co-Chief Executive Officers;

- each executive officer's individual circumstances, including tally sheet information reflecting the cash and equity-based compensation paid to each executive officer in each year since the officer started work with us (or since 1998 in the case of Mr. Ells, our Chairman and Co-Chief Executive Officer), as well as the accumulated value of all cash and equity-based compensation awarded to each executive officer; and
- competitive market pay practices.

The committee does not "benchmark" the compensation of our executive officers in the traditional sense. Rather, the committee refers to market data on executive compensation, and approves individual compensation levels by reference to its assessment of market compensation, together with historical compensation levels, subjective assessments of individual performance and other subjective factors. This is described further under "- Market Data" below.

The committee's outside compensation consultant also provides input on compensation decisions, including providing comparisons to market levels of compensation

## Market Data

The committee believes the investment community generally assesses our company performance by reference to other companies in the restaurant industry, and our management team and Board also reference such peer company performance in analyzing and evaluating our business. Accordingly, evaluating compensation by reference to our relative performance against, and levels of executive compensation at, companies in the restaurant industry allows for the most meaningful comparisons of our actual performance against our peers and of our executive compensation programs and practices against competitive market practice. The committee further believes that this ensures that compensation packages for our executive officers are structured in a manner rewarding superior operating performance and the creation of shareholder value.

# Executive Officers and Compensation

(continued)



The restaurant peer group used for these purposes has generally been comprised of all publicly-traded companies in the Global Industry Classification Standard, or GICS, restaurant industry with annual revenues greater than \$500 million, excluding companies serving a substantially different market or client base than we do. At the time the committee made its initial executive compensation decisions for 2015, the companies included in the peer group were as follows:

COMPANY	2015 ANNUAL REVENUES <sup>(1)(2)</sup>	MARKET CAPITALIZATION <sup>(1)(3)</sup>
Biglari Holdings, Inc.	\$ 861	\$ 673
BJ's Restaurants, Inc.	\$ 920	\$ 1,096
Bloomin' Brands, Inc.	\$ 4,378	\$ 2,024
Bob Evans Farms, Inc.	\$ 1,336	\$ 811
Brinker International, Inc.	\$ 3,100	\$ 2,856
Buffalo Wild Wings, Inc.	\$ 1,813	\$ 3,040
Carrols Restaurant Group, Inc.	\$ 823	\$ 411
The Cheesecake Factory Incorporated	\$ 2,101	\$ 2,181
Cracker Barrel Old Country Store, Inc.	\$ 2,861	\$ 3,036
Darden Restaurants, Inc.	\$ 6,905	\$ 8,155
DineEquity Inc.	\$ 681	\$ 1,578
Domino's Pizza Inc.	\$ 811	\$ 3,945
Dunkin Brands Group, Inc.	\$ 2,118	\$ 6,079
Fiesta Restaurant Group, Inc.	\$ 664	\$ 893
Ignite Restaurant Group, Inc.	\$ 830	\$ 110
Jack In The Box Inc.	\$ 1,540	\$ 2,746
McDonald's Corp.	\$25,413	\$108,480
Panera Bread Company	\$ 2,682	\$ 5,206
Papa John's International Inc.	\$ 1,637	\$ 2,180
Red Robin Gourmet Burgers, Inc.	\$ 1,258	\$ 860
Ruby Tuesday, Inc.	\$ 1,123	\$ 341
Sonic Corp.	\$ 612	\$ 1,594
Starbucks Corporation	\$19,733	\$ 89,132
Texas Roadhouse Inc.	\$ 1,807	\$ 2,509
The Wendy's Company	\$ 1,956	\$ 2,945
Yum! Brands, Inc.	\$13,105	\$ 31,502
Median	\$ 1,722	\$ 2,345
Chipotle Mexican Grill, Inc.	\$ 4,501	\$ 14,676

(1) In millions.

(2) Based on reported trailing 12-month revenue as of December 31, 2015.

(3) Based on closing stock price as of December 31, 2015 and number of shares known to be outstanding as of that date.

The committee reviews the composition of the restaurant industry peer group periodically and will make adjustments to the peer group in response to changes in the size or business operations of Chipotle and of companies in the peer group, companies in the peer group being acquired or taken private, and other companies in the GICS restaurant industry becoming public.

Data drawn from the restaurant peer group is adjusted by using regression analysis to eliminate variations in compensation levels attributable to differences in size of the component companies, based on revenues and on market capitalization. Compensation Strategies, the committee's independent executive compensation consultant prior to September 2015, performed this analysis at the time of compensation decisions made for 2015.

## Components of Compensation

### Base Salaries

We pay a base salary to compensate our executive officers for services rendered during the year, and also to provide them with income regardless of our stock price performance, which helps avoid incentives to create short-term stock price fluctuations and mitigates the impact of forces beyond our control such as general economic and stock market conditions. We do not have written employment agreements with any of our executive officers and therefore do not have contractual commitments to pay any particular level of base salary. Rather, the committee reviews the base salary of each executive officer at least annually and adjusts salary levels as the committee deems necessary or appropriate, based on the recommendations of our Co-Chief Executive Officers for each of the other officers. Base salaries are typically adjusted during the first quarter of each year. The committee's philosophy is to administer base salaries in a range around the 50<sup>th</sup> percentile of the market, while also taking into account an individual's performance, experience, development and potential, and internal equity issues. The committee anticipates that this range could extend from the 25<sup>th</sup> percentile and below for executive officers newer to their role, in a developmental period, or not meeting expectations, to the 90<sup>th</sup> percentile or higher for truly exceptional performers in critical roles who consistently exceed expectations. The current base salaries of our officers are at the high end of this range, due to their proven ability to drive consistently strong business performance.

The base salaries set for the executive officers for 2015 are discussed below under "-- Discussion of 2015 Executive Officer Compensation Decisions - Base Salaries."

### Annual Incentives

We have designed, and the Compensation Committee oversees, an annual performance-based cash bonus program for all of our full-time regional and corporate employees, including our executive officers. We call this program our "Annual Incentive Plan," or "AIP." Bonuses under the AIP are based on the achievement of pre-established performance measures that the committee determines to be important to the success of our operations and financial performance, and therefore to the creation of shareholder value.

Early in each year, we set a target AIP bonus for each eligible employee, including approval by the committee of the target bonus for each executive officer. Consistent with our overall compensation policies and philosophy, target

AIP bonuses as a percent of each executive officer's base salary are set in a range around the 50<sup>th</sup> percentile of the market. Individual targeted amounts can also be increased or decreased based on subjective individual considerations such as level of responsibility, experience and internal equity issues.

Following completion of our year-end financial statements and each executive officer's annual performance evaluation, actual bonuses are determined by applying to each executive officer's target bonus a formula that increases or decreases the payout amount based on performance against the AIP measures approved by the committee.

The committee may in some years also approve discretionary bonuses to reward particularly strong individual achievement or overall performance. In some years this is accomplished via a discretionary adjustment to the AIP terms at the time final payouts are determined, and in some years discretionary bonuses are determined outside the parameters of the AIP. No discretionary bonuses were paid for 2015.

See "-- Discussion of 2015 Executive Officer Compensation Decisions - Annual Incentives - 2015 AIP Payouts" below for a discussion of AIP bonuses for 2015.

### Equity Compensation Awards

We use equity compensation awards as determined by the committee to motivate and reward our executive officers for superior levels of performance, to align the interests of the executive officers with those of the shareholders, and to add a retention element to the executive officers' compensation through the use of multi-year performance and/or vesting periods. Eligibility for equity compensation awards is generally limited to our top performing employees who we believe have a substantial impact on our success, as well as high potential individuals who may be moving into roles that may have a substantial impact in the future.

Equity awards are made under our Amended and Restated 2011 Stock Incentive Plan, under which we are authorized to issue stock options, restricted stock or other equity-based awards denominated in shares of our common stock. The plan is administered by the Compensation Committee, and the committee makes grants directly to our executive officers, and is authorized to delegate the authority to make awards to employees other than the executive officers. The committee also sets the standard terms for awards under the plans each year.



Our Compensation Committee completely redesigned our officer equity award structure for 2015, and made significant changes again for 2016 in light of challenges to our business late in 2015. See below under “Long-Term Incentives - Performance Share Awards- 2015 Performance Share Awards” and “- 2016 Performance Share Awards” for more information regarding our officer equity awards for 2015 and 2016.

The committee’s policy has generally been to make equity compensation awards to officers only on an annual basis, within five business days following our public release of financial results for the previous year. Equity awards are granted to officers outside of this annual award cycle only in exceptional circumstances, such as in the case of key hires or promotions.

The committee may make additional long-term incentive awards, including equity awards, or delegate to one or more officers the authority to make such awards, to non-officer employees at any time throughout the year within the terms allowed in the Amended and Restated 2011 Stock Incentive Plan.

### **Benefits and Perquisites**

We provide our executive officers with access to the same benefits we provide all of our full-time employees. We also provide our officers with perquisites and other personal benefits that we believe are reasonable and consistent with our compensation objectives, and with additional benefit programs that are not available to all employees throughout our company.

Perquisites are generally provided to help us attract and retain top performing employees for key positions, and in some cases perquisites are designed to facilitate our executive officers bringing maximum focus to what we believe to be demanding job duties. In addition to the perquisites identified in notes to the Summary Compensation Table below, we have occasionally allowed executive officers to be accompanied by a guest when traveling for business on an airplane owned or chartered by us. Executive officers have also used company-owned or chartered airplanes for personal trips; in those cases the executive officer fully reimburses us for the cost of personal use of the airplane, except where prohibited by applicable regulations. Our executive officers are also provided with personal administrative and other services by company employees from time to time, including scheduling of personal appointments, performing personal errands, and use of company-provided drivers. We believe

that the perquisites we provide our executive officers are consistent with market practices, and are reasonable and consistent with our compensation objectives.

We also administer a non-qualified deferred compensation plan for our senior employees, including our executive officers. The plan allows participants to defer the obligation to pay taxes on certain elements of their compensation while also potentially receiving earnings on deferred amounts. We offer an employer match on a portion of the contributions made by the employees. We believe this plan is an important retention and recruitment tool because it helps facilitate retirement savings and financial flexibility for our key employees, and because many of the companies with which we compete for executive talent provide a similar plan to their key employees.

### **Discussion of 2015 Executive Officer Compensation Decisions**

#### **Assessment of Company Performance**

The committee sets the base salaries of, determines annual incentive award opportunities for, and makes long-term incentive awards to the executive officers during the first quarter of each year, generally in February. In making these decisions, the committee references our company performance over the short and long term, both in relative terms versus our restaurant industry peer group, and versus internal goals and expectations.

This assessment of company performance is only one factor used by the committee in making compensation decisions, as described in more detail below, but does play a significant role in the committee’s decision-making, consistent with our pay-for-performance philosophy. Because of our strong performance in 2014 and prior years relative to market-wide performance in our industry, the committee generally set compensation levels for our executive officers for 2015 at the upper end of the ranges that the committee believed to be appropriate for each executive officer.

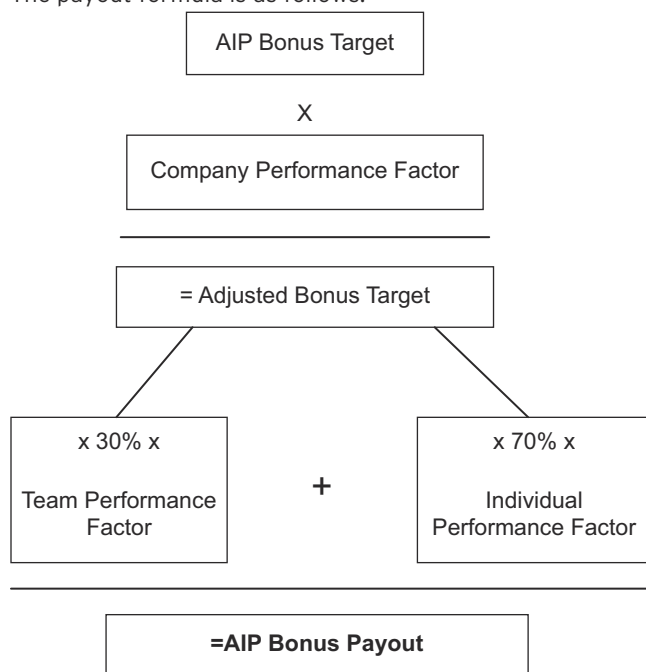
#### **Base Salaries**

To set base salary levels for 2015 for our executive officers, the committee considered the existing base salary of each officer, as well as each officer’s contribution level and effectiveness in his role, and the range of base salaries at our peer companies. In light of the strong performance of our company through the end of 2014 and based on the committee’s subjective determinations as to each officer’s individual performance and contribution to our significant growth, and also in light of the Co-CEO’s base salaries not increasing since 2012, each executive officer’s salary was increased for 2015. Base salaries for 2015 were increased to \$1,540,000 for Mr. Ellis and \$1,320,000 for Mr. Moran, and

were increased to \$750,000, for Mr. Hartung and \$535,000 for Mr. Crumacker. The difference in the base salaries of Mr. Moran and Mr. Ells is attributable to Mr. Moran serving in the office of Co-Chief Executive Officer only since the beginning of 2009, whereas Mr. Ells is our founder and Chairman of the Board, and has served as Chief Executive Officer since our inception. The differences in salary between the Co-Chief Executive Officers and the other executive officers are attributable to the committee's belief in the tremendous importance of strong leadership at the chief executive officer level as well as to the level of impact of the contributions made by the Co-Chief Executive Officers to our success.

### Annual Incentives—AIP Structure

The formula to determine payouts under the AIP consists of a company performance factor, a team performance factor, and an individual performance factor, each stated as a percentage by which an executive officer's target payout amount will be adjusted to determine actual cash bonuses. The payout formula is as follows:



In most years, each of the company, team and individual performance factors could be adjusted downward to zero based on company, team or individual performance, which could result in no AIP bonuses being paid or an individual's AIP bonus being significantly reduced. While adjustments downward have generally been much less significant, the potential for one or more factors to be significantly reduced ensures that AIP bonuses will be significantly reduced or not paid at all if our performance falls far short of our expectations, and enables us to avoid unduly rewarding employees not contributing to our success.

We include the company performance factor in the calculation to reward participating employees when our company performs well, which we believe focuses employees on improving corporate performance and aligns the interests of our employees with those of our shareholders. We include the team performance factor to promote teamwork and to provide rewards based on the areas of the company in which a participant can make the most impact. We include the individual performance factor to incentivize individual performance and to ensure individual accountability. Each of these components can reduce award levels when we, one of our "team" units, or an employee participating in the AIP don't perform well, which further promotes accountability. We believe that as a whole, this structure results in the AIP rewarding our top performers, consistent with our goal of building shareholder value.

To determine the company and team performance factors for each year, during the first quarter of the year the committee approves targeted performance levels for a number of financial or operating measures (on a company-wide basis for the company performance factor and for each of our operating regions for the team performance factor), and key initiatives for improving our company during the year. The AIP formulas are structured so that achievement at the targeted level of each financial and operating measure and achievement (as determined subjectively by the committee) of the key initiatives would result in company and team performance factors that would result in payout at 100 percent—in other words, at target. Achievement above or below the targeted financial and operating measures, and over- or under-achievement of the key initiatives, results in adjustments upward or downward to the company and team performance factors, on a scale for each measure approved by the committee at the beginning of the year. The company and team performance factors to determine payouts are calculated after the conclusion of the year by referencing actual company and regional performance on each of the relevant financial and operating measures, and on the key initiatives, to the scales approved by the committee, and in unusual circumstances, following additional adjustments that the committee deems to be appropriate to account for unforeseen factors during the year. The company performance factor and the team performance factor for most corporate-level employees, including each of the executive officers, are capped at 150 percent. The team performance factor for most corporate-level employees, including each officer, is the average of the regional team performance factors, subject to adjustment based on other variables considered by the committee relating to our corporate employees.

# Executive Officers and Compensation

(continued)



The individual performance factor is a function of the individual employee's performance rating for the year. The precise individual performance factor is set from zero to 130 percent following completion of the employee's performance review, within a range of percentages associated with the employee's performance rating. The committee evaluates the performance of the Co-Chief Executive Officers to determine each of their individual performance factors, and approves individual performance factors for each other executive officer after considering recommendations from the Co-Chief Executive Officers, in each case based on a subjective review of each officer's performance for the year.

The committee also sets maximums each year for the company, team and individual performance factors. The committee may, in its discretion, authorize a deviation from the parameters set for any particular performance factor in order to account for exceptional circumstances and ensure that AIP bonuses further the objectives of our compensation programs.

## Annual Incentives - 2015 AIP Payouts

For 2015, as a result of the food-borne illness incidents that negatively impacted our results beginning in the fourth quarter of 2015, our results fell significantly short of our performance targets, resulting in no bonuses being paid to the executive officers under the AIP.

The committee set the target annual AIP payouts for each executive officer during the first quarter of 2015, based in part by reference to the historical compensation of each officer, each officer's performance during the year, and median target bonuses for comparable positions within the restaurant industry peer group. The AIP parameters allow for maximum payouts equal to 204 percent of the target award, which the committee believes is adequate to reward achievement of outstanding results and motivate our employees to drive superior performance.

For 2015, as with past years, the four measures the committee selected to be used in determining the company and team performance factors were income from operations (prior to accrual for AIP payouts and stock compensation expense), new restaurant average daily sales, comparable restaurant sales increases, and new restaurant weeks of operation. Targeted performance for each measure was set as follows:

Performance Measure	Target
Operating Income (before AIP and stock compensation expense)	\$ 1,067.9 million
New Rest. Avg. Daily Sales	\$5,278
Comparable Rest. Sales Increase	7.0%
New Weeks of Operations	5,188

Consistent with our pay-for-performance philosophy these targets represented stretch goals, the achievement of which would have generally resulted in our financial results exceeding the base-level forecast results in our 2015 operating plan and equaling or exceeding the full-year 2015 guidance we publicly issued to investors. Performance on operating income, as adjusted, was weighted most heavily in the computation of the company performance factor, because we believe profitability is the most important measure of our financial success and driver of shareholder value.

In order to provide a strong incentive towards superior performance, the adjustment scales for the company performance factor were set such that overachievement against each goal would have resulted in upward adjustments at a higher rate than the rate at which equivalent levels of underachievement would have resulted in downward adjustments.

The targeted performance and adjustments for each of these measures on a regional level, other than new restaurant weeks of operation, were used to calculate the team performance factor for corporate-level employees as well. The regional performance targets and variance adjustments were set at the regional level consistent with the scales described above for the company performance factor.

The key initiatives targeted for 2015 were building Restaurateur cultures, setting salaried managers up for success, developing outstanding crew members, extraordinary customer service and throughput, and focusing on the fundamentals of our business. The committee's subjective determination of our level of achievement against these initiatives results in a specified adjustment to the company performance factor, though the adjustment attributable to the key initiatives is set at a maximum of five percent in either direction, considerably less than most other metrics impacting the company performance factor.

Due to the food-borne illness incidents that negatively impacted our results in 2015, our company performance factor was 0 percent, resulting in no AIP payouts to the executive officers.

## Long-Term Incentives - Performance Share Awards

### 2015 Performance Share Awards

In February 2015, in response to the say-on-pay vote at our 2014 annual meeting of shareholders and following extensive engagement with shareholders representing more than one-half of our shares outstanding, the committee made long-term incentive awards to each executive officer in the form of new performance share awards, in lieu of SOSARs. The performance share awards incorporate a three-year performance-contingent vesting period based on Chipotle's relative performance return versus a restaurant industry peer group in three equally-weighted measures:

- average revenue growth,
- net income growth, and
- total shareholder return.

The awards will pay out at the target number of shares set forth below if our relative achievement versus the peer group, averaged across the three performance measures, is at the 65th percentile; will pay out at two times the target number of shares set forth below if our averaged relative percentile achievement versus the peer group is at or above the 90th percentile; and will pay out at one-half the target number of shares set forth below if our averaged relative percentile achievement versus the peer group is at the 35th percentile. Payout for achievement in between the 35th and 65th, and between the 65th and 90th, percentiles will be interpolated linearly between the threshold and target payout levels or target and maximum payout levels, as applicable. Averaged relative achievement versus the peer group below the 35th percentile will result in expiration of the awards with no payout. The shares issuable at the threshold, target and maximum performance levels, and the reduction in grant date value of the awards versus total officer equity awards in 2014, are set forth below.

OFFICER NAME	SHARES EARNED FOR PERFORMANCE BELOW THRESHOLD	THRESHOLD: SHARES EARNED AT 35 <sup>TH</sup> PERCENTILE	TARGET: SHARES EARNED AT 65 <sup>TH</sup> PERCENTILE	MAXIMUM: SHARES EARNED AT 90 <sup>TH</sup> PERCENTILE	% REDUCTION FROM 2014 LTI VALUE
Steve Ells	0	7,444	14,887	29,774	49.2%
Monty Moran	0	7,444	14,887	29,774	49.2%
Jack Hartung	0	3,126	6,252	12,504	37.8%
Mark Crumpacker	0	2,233	4,466	8,932	11.2%

Performance will be calculated over the three year period beginning January 1, 2015 and ending December 31, 2017. The peer group used to measure relative performance under these awards is the same peer group disclosed on page 45. Vesting and payout of each award is subject to the recipient's continued employment through the vesting date, subject to the potential pro-rata payout to the recipient or his estate in the event of termination due to death, disability or retirement, and to potential accelerated vesting in the event of certain terminations within two years of certain change in control transactions.

The committee believes that this departure from prior equity compensation award practices for the executive officers effectively continued our performance-based compensation programs and encouraged our officers to continue to drive the creation of shareholder value, while addressing the principal points of concern raised by shareholders with our past compensation practices.

### 2016 Performance Share Awards

In late 2015, the committee evaluated how to approach executive officer equity compensation following the business challenges we faced during the second half of the year. After significant analysis and input from Pay Governance, the committee concluded that using operating or relative performance metrics for the 2016 equity awards would not be optimal. The committee had concerns that using 2015 year-end financials or stock price at the beginning of 2016 as the basis for performance evaluation could create a misalignment of shareholder returns and executive officer compensation. More specifically, the committee recognized that performance against the measures incorporated into the 2015 performance share awards may not translate into rebuilding lost shareholder value.

# Executive Officers and Compensation

(continued)



In early 2016, we discussed some of these issues and potential equity program changes with a number of our largest shareholders. Following those discussions and after further review and analysis, for 2016, the Compensation Committee decided to continue using performance shares for the executive officer equity compensation program. However, the 2016 performance shares will be tied solely to highly-challenging absolute stock price performance goals over a three-year performance period beginning February 3, 2016. The committee considered alternative performance metrics to be used for the 2016 performance shares, but ultimately concluded that restoring lost shareholder value was paramount. Further, the committee also concluded that granting SOSARs or other option-like awards would not be appropriate given the low strike price that would be associated with this type of grant.

Chipotle has undertaken a broad array of initiatives to address the issues that led to the stock price decline in 2015. The committee concluded that the 2016 performance share awards will continue to motivate our executive officers to ensure the successful implementation of these initiatives, thereby rebuilding customer confidence in the Chipotle brand. If that happens, we believe improved business results and stock price performance will follow.

Vesting of the awards will be based on Chipotle's stock price performance over the performance period. **The awards will pay out only if the average closing price of Chipotle's common stock for any period of 30 consecutive trading days during the performance term is at least \$700, which is approximately 52% higher than the closing price of Chipotle's common stock on the grant date.** The number of shares issuable at the end of the performance term will be determined based on the highest average closing stock price achieved for any period of 30 consecutive trading days during the performance term. The number of shares to be issuable to each executive officer at assumed levels of performance are set forth below.

Officer Name	Number of Shares Issued at Assumed 30-Day Average Stock Price Achievement During Performance Term					
	Below \$700	\$700 (Threshold)	\$800 (Target)	\$900	\$1,000	\$1,200 (Maximum)
	Steve Ells	0	13,500	27,000	54,000	81,000
Monty Moran	0	13,500	27,000	54,000	81,000	108,000
Jack Hartung	0	5,675	11,350	22,700	34,050	45,400
Mark Crumpacker	0	4,050	8,100	16,200	24,300	32,400
<i>Illustrative Market Capitalization<sup>(1)</sup> (was \$13.8 billion at grant date)</i>		\$21.1 billion	\$24.1 billion	\$27.2 billion	\$30.3 billion	\$36.4 billion

(1) Illustrative market capitalization is based on shares outstanding as of the grant date, plus shares issuable at each stock price performance hurdle.

The number of shares to be issuable between the various performance levels depicted above will be determined by linear interpolation between the next highest and lowest of the depicted performance levels. If the closing price of Chipotle common stock does not average at least \$700 for any period of 30 consecutive trading days during the performance term, the awards will expire with no payout. The vesting and payout of the awards will be subject to the recipient's continued employment through the end of the performance term, subject to the potential pro-rata payout, based on actual stock price performance, to the recipient or his estate in the event of termination due to death, disability or retirement, and to potential accelerated vesting in the event of certain terminations within two years of certain change in control transactions.

The awards described above are intended to be the only equity incentive awards made to Chipotle's executive officers during 2016, and are in lieu of all other performance share, restricted stock, stock appreciation rights, option or other equity awards that otherwise could be made to the executive officers during 2016 under the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan.

### Vesting of Previously-Granted Performance SOSARs

As of December 31, 2014, the performance criteria on the second tranche of Performance SOSARs granted in 2012, and on the first tranche of Performance SOSARs granted in 2013, were satisfied. Accordingly in February 2015 the awards became vested and exercisable. The performance criteria on these awards was the achievement of cumulative adjusted cash flow from operations as follows:

AWARD	PERFORMANCE PERIOD	CUM. ADJ. CASH FLOW FROM OPS
2012 Performance SOSARs	1/1/2012 to 12/31/2014	\$ 1.472 billion
2013 Performance SOSARs	1/1/2013 to 12/31/2014	\$ 1.158 billion



# Executive Officers and Compensation

(continued)



As of December 31, 2015, the performance criteria on the second tranche of Performance SOSARs granted in 2013, and on the first tranche of Performance SOSARs granted in 2014, were satisfied. Accordingly, following certification of the achievement of the performance criteria on these awards, the second tranche of the 2013 Performance SOSAR awards and the first tranche of the 2014 Performance SOSAR awards will vest and become exercisable. The performance criteria on these awards was the achievement of cumulative adjusted cash flow from operations as follows:

AWARD	PERFORMANCE PERIOD	CUM. ADJ. CASH FLOW FROM OPS
2013 Performance SOSARs	1/1/2013 to 12/31/2015	\$ 1.761 billion
2014 Performance SOSARs	1/1/2014 to 12/31/2015	\$ 1.729 billion

## 2013 Performance Share Awards

The end of the third quarter of 2014 represented conclusion of the second year of the three-year performance period for performance shares awarded in December of 2013. These performance share awards consist of a right to receive a pre-determined number of shares of our common stock based on our achievement of cumulative adjusted cash flow from operations over the performance period at a threshold, target or maximum level. These awards are reflected below in the Outstanding Equity Awards at December 31, 2015 table below.

## Executive Stock Ownership Guidelines

Our Board of Directors has adopted stock ownership guidelines for our executive officers. These guidelines are intended to ensure that our executive officers retain ownership of a sufficient amount of Chipotle stock to align their interests in a meaningful way with those of our shareholders. Alignment of our employees' interests with those of our shareholders is a principal purpose of the equity component of our compensation program.

The ownership guidelines, reflected as a targeted number of shares to be owned, are presented below. The guidelines are reviewed for possible adjustment each year and may be adjusted by the committee at any time.

OFFICER	# OF SHARES	ACTUAL OWNERSHIP
Steve Eills	31,000	196,802
Monty Moran	31,000	154,755
Jack Hartung	7,000	30,392
Mark Crumpacker	3,000	3,000

Shares underlying unvested restricted stock or restricted stock units count towards satisfaction of the guidelines, while shares underlying SOSARs (whether vested or unvested) and unearned performance shares do not count. Executive officers who do not meet the guidelines are allowed five years to acquire the requisite number of shares to comply. All of our executive officers meet the stock ownership guidelines. We also have adopted a policy prohibiting our directors and certain employees, including all of the executive officers, from hedging their Chipotle

stock ownership or pledging their shares of Chipotle stock as collateral for loans.

## Tax And Other Regulatory Considerations

### Code Section 162(m)

Section 162(m) of the Internal Revenue Code provides that compensation of more than \$1,000,000 paid to the chief executive officer or to certain other executive officers of a public company will not be deductible for federal income tax purposes unless amounts above \$1,000,000 qualify for one of several exceptions. The committee's primary objective in designing executive compensation programs is to support and encourage the achievement of our company's strategic goals and to enhance long-term shareholder value. For these and other reasons, the committee has determined that it will not necessarily seek to limit executive compensation to the amount that will be fully deductible under Section 162(m).

We have implemented the 2014 Cash Incentive Plan as an umbrella plan under which AIP bonuses are paid in order to meet requirements to deduct the amount of the payouts from our reported income under Section 162(m). Under the 2014 plan, the committee sets maximum bonuses for each executive officer and other key employees. If the bonus amount determined under the AIP for participants in the 2014 plan is lower than the maximum bonus set under the 2014 plan, the committee has historically exercised discretion to pay the lower AIP bonus rather than the maximum bonus payable under the 2014 plan. In instances where the committee has determined to pay bonuses in excess of those determined under the AIP, such additional

bonuses were paid under the predecessor to the 2014 plan and, in combination with AIP bonuses, were less than the maximum bonuses fixed under the plan.

### *Accounting Rules*

Various rules under generally accepted accounting principles determine the manner in which we account for equity-based compensation in our financial statements. The committee may consider the accounting treatment under

Financial Accounting Standards Board Accounting Standards Codification Topic 718 (FASB Topic 718) of alternative grant proposals when determining the form and timing of equity compensation grants to our executive officers. The accounting treatment of such grants, however, is not generally determinative of the type, timing, or amount of any particular grant of equity-based compensation the committee determines to make.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management. Based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement for filing with the SEC.

The Compensation Committee.

Neil W. Flanzraich, Chairperson  
Patrick J. Flynn  
Darlene J. Friedman



# Executive Officers and Compensation

(continued)



## 2015 COMPENSATION TABLES

In reviewing the compensation information included below, it is important to bear in mind that consistent with past practice, compensation decisions for 2015 were made early in the year. Consequently, the amounts and awards reflected in the compensation tables below primarily reflect decisions made well before the fourth quarter of 2015 and the difficulties we experienced in our business during that time.

### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	SALARY	STOCK AWARDS <sup>(1)</sup>	OPTION AWARDS <sup>(2)</sup>	NON-EQUITY INCENTIVE PLAN COMPENSATION <sup>(3)</sup>	ALL OTHER COMPENSATION <sup>(4)</sup>	TOTAL
<b>STEVE ELLS</b>	2015	\$ 1,526,000	\$12,030,036	–	–	\$ 281,858	\$ 13,837,894
<i>Chairman and Co-Chief Executive Officer</i>	2014	\$1,400,000	–	\$23,698,500	\$3,570,000	\$255,770	\$28,924,270
	2013	\$1,400,000	\$ 7,961,250	\$ 12,304,500	\$ 3,196,816	\$254,305	\$ 25,116,871
<b>MONTY MORAN</b>	2015	\$1,308,000	\$12,030,036	–	–	\$ 223,041	\$ 13,561,077
<i>Co-Chief Executive Officer</i>	2014	\$1,200,000	–	\$23,698,500	\$3,060,000	\$ 194,702	\$ 28,153,203
	2013	\$1,200,000	\$ 7,961,250	\$ 12,304,500	\$ 2,740,128	\$ 191,176	\$24,397,054
<b>JACK HARTUNG</b>	2015	\$ 745,769	\$ 5,052,179	–	–	\$ 235,361	\$ 6,033,309
<i>Chief Financial Officer</i>	2014	\$ 700,000	–	\$ 8,125,200	\$ 1,213,800	\$206,842	\$10,245,842
	2013	\$ 645,719	\$ 3,980,625	\$ 4,101,500	\$ 975,501	\$179,004	\$ 9,882,349
<b>MARK CRUMPACKER</b>	2015	\$ 532,077	\$ 3,608,930	–	–	\$ 141,581	\$ 4,282,588
<i>Chief Creative and Development Officer</i>	2014	\$ 500,000	–	\$ 4,062,600	\$ 663,000	\$ 109,591	\$ 5,335,191
	2013	\$ 402,580	\$ 3,184,500	\$ 1,692,400	\$ 506,328	\$107,054	\$ 5,892,862

- (1) Amounts under “Stock Awards” represent the grant date fair value under FASB Topic 718 of performance shares awarded in 2013 and 2015 and for which vesting was considered probable as of the grant date. See Note 6 to our audited consolidated financial statements for the year ended December 31, 2015, which are included in our Annual Report on Form 10-K filed with the SEC on February 5, 2016, for descriptions of the methodologies and assumptions we use to value stock awards and the manner in which we recognize the related expense pursuant to FASB ASC Topic 718. The grant date fair value of the 2015 awards assuming the highest level of performance were achieved (which was determined not to be probable as of the grant date) would have been \$17,399,032 for Mr. ELLS and Mr. Moran; \$7,306,962 for Mr. Hartung; and \$5,219,593 for Mr. Crumpacker.
- (2) Amounts under “Option Awards” represent the grant date fair value under FASB Topic 718 of SOSARs awarded in the relevant year. See Note 6 to our audited consolidated financial statements for the year ended December 31, 2015, as referenced in footnote 1, for descriptions of the methodologies and assumptions we use to value SOSAR awards and the manner in which we recognize the related expense pursuant to FASB ASC Topic 718.
- (3) Amounts under “Non-Equity Incentive Plan Compensation” represent the amounts earned under the AIP for the relevant year, as described under “Compensation Discussion and Analysis - Discussion of Executive Officer Compensation Decisions - Annual Incentives - AIP Structure” and “- 2015 AIP Payouts.”
- (4) Amounts under “All Other Compensation” for 2015 include the following:
- Matching contributions we made on the executive officers’ behalf to the Chipotle Mexican Grill, Inc. 401(K) plan as well as the Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan, in the aggregate amounts of \$205,692 for Mr. ELLS, \$176,308 for Mr. Moran, \$80,398 for Mr. Hartung, and \$48,474 for Mr. Crumpacker. See “Non-Qualified Deferred Compensation for 2015” below for a description of the Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan.
  - Company car costs, which include the depreciation expense recognized on company-owned cars or lease payments on leased cars (in either case less employee payroll deductions), insurance premiums, and maintenance and fuel costs. Company car costs for Mr. ELLS were \$60,496, for Mr. Moran were \$37,074, for Mr. Hartung were less than \$25,000, and for Mr. Crumpacker were \$32,028.
  - Housing costs, including monthly rent and utilities payments, of \$35,392 for Mr. Hartung and \$45,274 for Mr. Crumpacker.
  - \$14,918 for Mr. ELLS, \$8,906 for Mr. Moran, \$63,294 for Mr. Hartung, and \$15,071 for Mr. Crumpacker for reimbursement of taxes payable in connection with taxable perquisites under rules of the Internal Revenue Service.
  - Commuting expenses, which include air fare, airport parking and ground transportation relating to travel between home and our company headquarters, for Mr. Hartung totaling \$38,604.

## GRANTS OF PLAN-BASED AWARDS IN 2015

NAME	GRANT DATE	AWARD DESCRIPTION	ESTIMATED POSSIBLE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS <sup>(1)</sup>			ESTIMATED POSSIBLE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS <sup>(2)</sup>			GRANT DATE FAIR VALUE OF STOCK AWARDS <sup>(3)</sup>
			THRESHOLD (\$)	TARGET (\$)	MAXIMUM (\$)	THRESHOLD (# shares)	TARGET (# shares)	MAXIMUM (# shares)	
<b>STEVE ELLS</b>									
	n/a	AIP	\$0	\$1,925,000	\$3,927,000				
	2/20/15	Performance Shares				7,444	14,887	29,774	\$12,030,036
<b>MONTY MORAN</b>									
	n/a	AIP	\$0	\$1,650,000	\$3,366,000				
	2/20/15	Performance Shares				7,444	14,887	29,774	\$12,030,036
<b>JACK HARTUNG</b>									
	n/a	AIP	\$0	\$ 637,500	\$1,300,500				
	2/20/15	Performance Shares				3,126	6,252	12,504	\$ 5,052,179
<b>MARK CRUMPACKER</b>									
	n/a	AIP	\$0	\$ 347,750	\$ 709,410				
	2/20/15	Performance Shares				2,233	4,466	8,932	\$ 3,608,930

(1) Each executive officer was entitled to a cash award to be paid under our 2014 Cash Incentive Plan, although as a matter of practice the Compensation Committee exercises discretion to pay each executive officer a lesser amount determined under the AIP as described under "Compensation Discussion and Analysis - Components of Compensation - Annual Incentives." Amounts under Threshold reflect that no payouts would be paid under the AIP if achievement against company targets under the AIP were sufficiently below target. Amounts under Target reflect the target AIP bonus, which would have been paid to the executive officer if each of the company performance factor, team performance factor and individual performance factor under the AIP had been set at 100 percent. Amounts under Maximum reflect the AIP bonus which would have been payable had each of the company performance factor, team performance factor and individual performance factor been at the maximum level. Actual AIP bonuses paid are reflected in the "Non-Equity Incentive Plan Compensation" column of the table labeled Summary Compensation Table above.

(2) The Performance Share awards are denominated in shares of common stock, and were granted under the Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan, as amended and restated. See "Terms of 2015 Equity-Based Awards" below for a description of the vesting terms for the Performance Shares granted during 2015. See Note 6 to our audited consolidated financial statements for the year ended December 31, 2015, which are included in our Annual Report on Form 10-K filed with the SEC on February 5, 2016, for descriptions of the methodologies and assumptions we used to value Performance Share awards pursuant to FASB Topic 718. The grant date fair value of Performance Share awards is included in the "Stock Awards" column of the Summary Compensation Table above for each executive officer for 2015.

(3) See footnote (1) to the Summary Compensation Table above.

### Terms of 2015 Performance Share Awards

Vesting and payout of the Performance Share awards made in 2015 will be based on Chipotle's relative performance versus our restaurant industry peer group in revenue growth, net income growth, and total shareholder return, with each performance measure to be weighted equally. The awards will pay out at the target number of shares set forth in the Grants of Plan-Based Awards for 2015 table, above, if our relative achievement versus the peer group, averaged across the three performance measures, is at the 65th percentile; will pay out at two times the target number of shares set forth in the table if our averaged relative percentile achievement versus the peer group is at or above the 90th percentile; and will pay out at one-half the target number of shares set forth below if our averaged relative percentile achievement versus the peer group is at the 35th percentile. Payout for achievement in between the 35th and 65th, and between the 65th and 90th, percentiles will be interpolated linearly between the threshold and target payout levels or target and maximum payout levels, as applicable. Averaged relative achievement versus the peer group below the 35th percentile will result in expiration of the awards with no payout. Performance will be calculated over the three year period beginning January 1, 2015 and ending December 31, 2017. Vesting and payout of each award is subject to the recipient's continued employment through the vesting date, subject to the potential pro-rata payout to the recipient or his estate in the event of termination due to death, disability or retirement, and to potential accelerated vesting in the event of certain terminations within two years of certain change in control transactions, as described in the footnotes to the Equity Award Vesting table appearing below

# Executive Officers and Compensation

(continued)



under "Potential Payments Upon Termination or Change-in-Control." We filed the form of Performance Share Agreements for these grants as an exhibit to our Quarterly Report on Form 10-Q filed with the SEC on April 22, 2015.

## OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2015

NAME	OPTION AWARDS				STOCK AWARDS	
	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS UNEXERCISABLE	OPTION EXERCISE PRICE	OPTION EXPIRATION DATE	EQUITY INCENTIVE PLAN AWARDS: NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED	EQUITY INCENTIVE PLAN AWARDS: MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED
<b>STEVE ELLS</b>						
	-	37,500 <sup>(1)</sup>	\$ 318.45	2/7/2020	5,000 <sup>(6)</sup>	\$2,399,250 <sup>(7)</sup>
	-	37,500 <sup>(2)</sup>	\$ 318.45	2/7/2020	7,444 <sup>(8)</sup>	\$3,572,003 <sup>(7)</sup>
	-	87,500 <sup>(3)</sup>	\$543.20	2/3/2021		
	-	87,500 <sup>(4)</sup>	\$543.20	2/3/2021		
<b>MONTY MORAN</b>						
	40,000	-	\$ 371.63	2/6/2019	5,000 <sup>(6)</sup>	\$2,399,250 <sup>(7)</sup>
	60,000	-	\$ 371.63	2/6/2019	7,444 <sup>(8)</sup>	\$3,572,003 <sup>(7)</sup>
	37,500	37,500 <sup>(1)</sup>	\$ 318.45	2/7/2020		
	37,500	37,500 <sup>(2)</sup>	\$ 318.45	2/7/2020		
	-	87,500 <sup>(3)</sup>	\$543.20	2/3/2021		
	-	87,500 <sup>(4)</sup>	\$543.20	2/3/2021		
<b>JACK HARTUNG</b>						
	12,500	12,500 <sup>(1)</sup>	\$ 318.45	2/7/2020	2,500 <sup>(6)</sup>	\$ 1,199,625 <sup>(7)</sup>
	12,500	12,500 <sup>(2)</sup>	\$ 318.45	2/7/2020	3,126 <sup>(8)</sup>	\$ 1,500,011 <sup>(7)</sup>
	-	30,000 <sup>(3)</sup>	\$543.20	2/3/2021		
	-	30,000 <sup>(4)</sup>	\$543.20	2/3/2021		
<b>MARK CRUMPACKER</b>						
	-	4,000 <sup>(1)</sup>	\$ 318.45	2/7/2020	2,000 <sup>(6)</sup>	\$ 959,700 <sup>(7)</sup>
	-	4,000 <sup>(2)</sup>	\$ 318.45	2/7/2020	2,233 <sup>(8)</sup>	\$ 1,071,505 <sup>(7)</sup>
	-	2,000 <sup>(5)</sup>	\$365.80	6/8/2020		
	-	15,000 <sup>(3)</sup>	\$543.20	2/3/2021		
	-	15,000 <sup>(4)</sup>	\$543.20	2/3/2021		

- (1) These SOSARs, which were subject to time-based vesting only, vested in full on February 7, 2016.
- (2) Vesting of these Performance SOSARs, is contingent upon our achievement of stated levels of cumulative adjusted cash flow from operations prior to the fifth fiscal year-end following the award date, with vesting to occur upon certification of the satisfaction of the performance criteria by the Compensation Committee and no earlier than expiration of the time-based vesting requirement on February 7, 2016. The performance criteria for these awards were satisfied as of December 31, 2015, and accordingly, following February 7, 2016, vesting is subject only to certification by the Compensation Committee of achievement of the performance criteria. Vesting of these Performance SOSARs may accelerate as described in the footnotes to the table below under "Potential Payments Upon Termination or Change-in-Control."
- (3) These SOSARs are subject to time-based vesting; one-half of the awards vested on February 3, 2016.
- (4) Vesting of these Performance SOSARs is contingent upon our achievement of stated levels of cumulative adjusted cash flow from operations prior to the fourth and fifth fiscal year-ends following the award date with vesting to occur no sooner than February 3, 2016 and 2017 (with half of each Performance SOSAR subject to each such time-based vesting date). The performance criteria for the first tranche of these awards were satisfied as of December 31, 2015, and accordingly, following February 3, 2016, vesting of one-half of the awards is subject only to certification by the Compensation Committee of achievement of the performance criteria. Vesting of these Performance SOSARs may accelerate as described in the footnotes to the table below under "Potential Payments Upon Termination or Change-in-Control."
- (5) These SOSARs will vest on June 8, 2016, subject to potential accelerated vesting as described in the footnotes to the table below under "Potential Payments Upon Termination or Change-in-Control."
- (6) Represents shares issuable under 2013 performance share awards, assuming achievement at the threshold level of cumulative adjusted cash flow from operations, subject to certain adjustments for stock-based compensation expense and for one-time or unusual items, through September 30, 2016.
- (7) Based on the closing stock price of our common stock on December 31, 2015 of \$479.85 per share.
- (8) Represents shares issuable under 2015 performance share awards, assuming achievement at the threshold level. The performance terms for the 2015 performance share awards are described above under "--Terms of 2015 Performance Share Awards."

# Executive Officers and Compensation

(continued)



## OPTION EXERCISES AND STOCK VESTED IN 2015

The following table provides summary information about SOSARs exercised by our executive officers during 2015. No full-value shares of stock vested during 2015.

NAME	OPTION AWARDS	
	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED ON EXERCISE <sup>(1)</sup>
Steve Ells	150,000	\$ 46,594,735
Monty Moran	270,000	\$107,808,576
Jack Hartung	75,000	\$ 27,544,397
Mark Crumpacker	18,000	\$ 5,330,771

(1) Based on the amount by which the price of our common stock used to compute the exercise proceeds exceeded the base price of the SOSARs.

## NON-QUALIFIED DEFERRED COMPENSATION FOR 2015

The Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan permits eligible management employees who elect to participate in the plan, including our executive officers, to make contributions to deferral accounts once the participant has maximized his or her contributions to our 401(k) plan. Contributions are made on the participant's behalf through payroll deductions from 1 percent to 50 percent of the participant's monthly base compensation, which are credited to the participant's "Supplemental Account," and from 1 percent to 100 percent of awards under the AIP, which are credited to the participant's "Deferred Bonus Account." We also match contributions at the rate of 100 percent on the first 3 percent of compensation contributed and 50 percent on the next 2 percent of compensation contributed. Amounts contributed to a participant's deferral accounts are not subject to federal income tax at the time of contribution. Amounts credited to a participant's deferral accounts fluctuate in value to track a variety of available investment choices selected by the participant (which may be changed by the participant at any time), and are fully vested at all times following contribution.

Participants may elect to receive distribution of amounts credited to either or both of the participant's Supplemental Account or Deferred Bonus Account, in either (1) a lump sum amount paid from two to six years following the end of the year in which the deferral is made, subject to a one-time opportunity to postpone such lump sum distribution, or (2) a lump sum or installment distribution following termination of the participant's service with us, with installment payments made in accordance with the participant's election on a monthly, quarterly or annual basis over a period of up to 15 years following termination, subject to a one-time opportunity to change such distribution election within certain limitations. Distributions in respect of one or both of a participant's deferral accounts are subject to federal income tax as ordinary income in the year the distribution is made.

Amounts credited to participants' deferral accounts are unsecured general obligations of ours to pay the value of the accounts to the participants at times determined under the plan.

# Executive Officers and Compensation

(continued)



The table below presents contributions by each executive officer, and our matching contributions, to the Supplemental Deferred Investment Plan during 2015, as well as each executive officer's earnings under the plan and ending balances in the plan on December 31, 2015.

NAME	EXECUTIVE CONTRIBUTIONS IN LAST FY <sup>(1)</sup>	REGISTRANT CONTRIBUTIONS IN LAST FY <sup>(2)</sup>	AGGREGATE EARNINGS/ (LOSSES) IN LAST FY <sup>(3)</sup>	AGGREGATE WITHDRAWALS/ DISTRIBUTIONS	AGGREGATE BALANCE AT LAST FYE <sup>(4)</sup>
Steve Eells	\$243,865	\$195,092	(\$ 13,574)	\$334,701	\$ 1,476,761
Monty Moran	\$497,835	\$165,708	(\$93,566)	–	\$3,319,889
Jack Hartung	\$ 967,515	\$ 78,244	(\$ 11,486)	–	\$5,741,288
Mark Crumpacker	\$ 78,835	\$ 37,874	(\$ 5,083)	\$ 73,856	\$ 270,264

- (1) These amounts are reported in the Summary Compensation Table as part of each executive's "Salary" and "Non-Equity Incentive Plan Compensation" for 2015.
- (2) These amounts are reported in the Summary Compensation Table as part of each executive's "All Other Compensation" for 2015.
- (3) These amounts are not reported as compensation in the Summary Compensation Table because none of the earnings are "above market" as defined in SEC rules.
- (4) These amounts include amounts previously reported in the Summary Compensation Table as "Salary," "Non-Equity Incentive Plan Compensation" or "All Other Compensation" for years prior to 2015 (ignoring for purposes of this footnote any investment losses on balances in the plan and any withdrawals/distributions), in the following aggregate amounts: \$1,899,712 for Mr. Eells, \$2,471,015 for Mr. Moran, \$4,183,180 for Mr. Hartung, and \$201,903 for Mr. Crumpacker.

## McDonald's Excess Non-Qualified Plan and Non-Qualified Supplemental Plan

Prior to our separation from McDonald's in October 2006, our executive officers and other key employees were permitted to participate in non-qualified deferred compensation plans maintained by McDonald's. These plans provided substantially similar benefits to participants as our Supplemental Deferred Investment Plan, except that the investment and distribution options in the McDonald's

plans are different than those in our plan. Effective with our separation from McDonald's, our employees' service with McDonald's was deemed to have terminated, and the balances in these plans were distributed in accordance with each participant's distribution elections. Our employees are no longer permitted to contribute to these plans, but the balances remaining in the plans in respect of our executive officers are attributable in part to service as one of our employees.

The table below presents, for Mr. Hartung, our only executive officer with a balance remaining in any McDonald's non-qualified deferred compensation plan, his aggregate earnings under and aggregate withdrawals from the McDonald's plans during 2015, as well as his aggregate ending balance in the plans as of December 31, 2015.

NAME	EXECUTIVE CONTRIBUTIONS IN LAST FY	REGISTRANT CONTRIBUTIONS IN LAST FY	AGGREGATE EARNINGS IN LAST FY <sup>(1)</sup>	AGGREGATE WITHDRAWALS/ DISTRIBUTIONS	AGGREGATE BALANCE AT LAST FYE <sup>(2)</sup>
Jack Hartung	–	–	\$11,848	\$372,984	\$378,628

- (1) This amount is not reported as compensation in the Summary Compensation Table because none of the earnings are "above market" as defined in SEC rules.
- (2) This amount includes amounts previously reported in the Summary Compensation Table as "Salary" or "All Other Compensation" for 2006 (ignoring for purposes of this footnote any investment losses on balances in the plans), in the amounts of \$140,647.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

We have not entered into written employment, change-in-control, severance or similar agreements with any of our employees, including our executive officers. Accordingly, we do not have any written agreements requiring that we make post-employment severance payments to the executive officers in the event their employment terminates. In addition, payouts under the AIP are conditioned on the employee being employed as of the payout date. We have in the past paid severance to executives or other key employees who have left us, and we may negotiate individual severance arrangements with any executive officer whose employment with us terminates in the future, depending on the circumstances of the executive's termination.

The terms of the equity-based awards made to our executive officers do provide for post-employment benefits in certain circumstances. The table below reflects the dollar value, based on the closing price of our common stock on December 31, 2015, of the value of each listed type of equity award that was not vested on December 31, 2015 and on which vesting would have been accelerated had the executive's employment terminated, for the reasons identified in the table, as of December 31, 2015.

## Potential Amounts Realizable Upon Termination Under Equity Awards

NAME	INVOLUNTARY TERMINATION <sup>(1)</sup>	VOLUNTARY RESIGNATION <sup>(1)</sup>	RETIREMENT <sup>(2)</sup>	QUALIFYING TERMINATION FOLLOWING CHANGE IN CONTROL <sup>(3)</sup>	DEATH/DISABILITY <sup>(4)</sup>
<b>STEVE ELLS</b>					
SOSARs <sup>(5)</sup>	-	-	\$12,105,000	\$ 12,105,000	\$12,105,000
Performance Shares	-	-	\$ 5,640,622	\$ 11,942,027	\$ 5,640,622
<b>Total</b>	\$0	\$0	\$17,745,622	\$24,047,027	\$17,745,622
<b>MONTY MORAN</b>					
SOSARs <sup>(5)</sup>	-	-	N/A	\$ 12,105,000	\$12,105,000
Performance Shares	-	-	N/A	\$ 11,942,027	\$ 5,640,622
<b>Total</b>	\$0	\$0	N/A	\$24,047,027	\$17,745,622
<b>JACK HARTUNG</b>					
SOSARs <sup>(5)</sup>	-	-	\$4,035,000	\$ 4,035,000	\$4,035,000
Performance Shares	-	-	\$ 2,648,515	\$ 5,399,272	\$ 2,648,515
<b>Total</b>	\$0	\$0	\$ 6,683,515	\$ 9,434,272	\$ 6,683,515
<b>MARK CRUMPACKER</b>					
SOSARs <sup>(5)</sup>	-	-	N/A	\$ 1,519,300	\$ 1,519,300
Performance Shares	-	-	N/A	\$ 4,062,410	\$ 2,041,587
<b>Total</b>	\$0	\$0	N/A	\$ 5,581,710	\$ 3,560,887

(1) Assumes the absence of a change in control as described in further detail in footnote 3 below.

(2) Certain outstanding equity awards provide that the holder is eligible for retirement when the employee reaches a combined age and years-of-service with us (and with McDonald's Corporation unless there was a break in service prior to joining us from McDonald's) of 70. Of the executive officers, Mr. Ells and Mr. Hartung were eligible for retirement as of December 31, 2015.

In the event the employment of a holder of SOSARs terminates as a result of the holder's retirement, provided we receive six months' prior written notice of the retirement and the holder executes an agreement not to engage in any competitive activity with us for a period of at least two years following retirement, service-based vesting conditions on the SOSARs are deemed satisfied immediately. In such event, SOSARs subject to performance conditions remain outstanding and subject to vesting based on achievement of the performance conditions, and SOSARs without performance conditions are immediately vested. All such SOSARs remain outstanding and exercisable (following vesting) for the original duration of the SOSAR. The amounts reflected in the table as realizable upon retirement in respect of SOSARs reflects amounts attributable to the portion of SOSARs granted in 2013 and 2014 subject to performance conditions for which the performance conditions were satisfied as of December 31, 2015, notwithstanding that the Compensation Committee had not yet certified the satisfaction of the performance conditions as of that date as is required for the awards to vest, but does not reflect any amounts in respect of performance SOSARs for which the performance conditions were not yet satisfied as of December 31, 2015, due to the ongoing vesting conditions that would be in effect at the time of the holder's retirement.



In the event the employment with us of a holder of performance shares terminates as a result of the holder's retirement, the performance shares will be paid out on the payout date, with the number of shares issuable to be based on actual performance over the performance period and pro-rated in an amount equal to the period of the holder's service with us following the grant of the award as a percentage of the time period from the grant of the award until the end of the performance period. The amounts reflected in the table as realizable in respect of the performance shares in connection with retirement assume that the performance shares actually paid out at target. These amounts would not be realizable until following completion of the applicable performance periods for each award.

- (3) The award agreements for SOSARs provide that in the event of a change in control under our Amended and Restated 2011 Stock Incentive Plan, unless the SOSARs are replaced with an award meeting the criteria described below under "-Equity Award Vesting Upon Change in Control," the SOSARs immediately vest. One of the provisions required to be included in a replacement award in order to avoid vesting of the SOSARs immediately upon occurrence of a change in control is that the replacement award must provide that if the employment of the holder is terminated without cause or by the holder for good reason, in each case as defined in the plan, the award will vest.

A change in control would generally be deemed to occur under the plan in the event any person or group acquires shares of our common stock representing greater than 25 percent of the combined voting power of our outstanding common stock, or in the event our current directors, or persons we nominate to replace current directors, do not constitute at least a majority of our Board, or in the event of certain mergers, liquidations, or sales of substantially all of our assets by us.

The award agreement for our outstanding performance shares provides that in the event of a change in control under the plan that also constitutes a "change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation" under applicable U.S. Treasury Regulations, the performance shares remain outstanding and vesting will accelerate (with payout at target level performance) in the event the employment of the holder is terminated without cause or by the holder for good reason within two years following the change in control. In the event of a change in control under the plan that also constitutes a "change in the ownership of a corporation" or a "change in the ownership of a substantial portion of a corporation's assets" under applicable U.S. Treasury Regulations, unless the performance shares are replaced with an award meeting the criteria described below under "- Equity Award Vesting Upon Change in Control," the performance shares immediately vest at target level performance. One of the provisions required to be included in a replacement award in order to avoid vesting of the performance shares immediately upon occurrence of such a change in control is that the replacement award must provide that if the employment of the holder is terminated without cause or due to death or disability of the holder, or by the holder for good reason, in each case as defined in our Amended and Restated 2011 Stock Incentive Plan, the award will vest.

- (4) In the event the employment with us of a holder of SOSARs subject to performance conditions terminates as a result of the holder's death or disability, service-based vesting conditions on such SOSARs are deemed satisfied immediately. In such event, the SOSARs remain outstanding and subject to vesting based on achievement of the performance conditions, with vesting to be prorated for the time period of the holder's service prior to death and disability as a proportion of the period from the grant date to the satisfaction of the performance condition. The amounts reflected in the table as realizable upon death or disability in respect of SOSARs reflects amounts attributable to the portion of SOSARs granted in 2013 and 2014 subject to performance conditions for which the performance conditions were satisfied as of December 31, 2015, notwithstanding that the Compensation Committee had not yet certified the satisfaction of the performance conditions as of that date as is required for the awards to vest, but does not reflect any amounts in respect of performance SOSARs for which the performance conditions were not yet satisfied as of December 31, 2015, due to the ongoing vesting conditions that would be in effect at the time of the holder's death or disability.

In the event the employment with us of a holder of performance shares terminates as a result of the holder's death or disability, the performance shares will be paid out on the payout date, with the number of shares issuable to be based on actual performance over the performance period and pro-rated in an amount equal to the period of the holder's service with us following the grant of the award as a percentage of the time period from the grant of the award until the end of the performance period. The amounts reflected in the table as realizable in respect of the performance shares as a result of the death or disability of each executive officer assumes that the performance shares actually paid out at target. These amounts would not be realizable until following completion of the performance period.

- (5) The dollar values reflected in the table are based on the excess of the closing price of our common stock on December 31, 2015 over the exercise price of the applicable SOSARs.



## Equity Award Vesting Upon Change in Control

Generally, our outstanding unvested equity awards do not vest automatically in the event of a change in control. In addition to the provisions described above relating to equity-based awards for which vesting may accelerate in connection with a termination of the holder's employment following certain changes in control of Chipotle, however, our outstanding SOSARs and performance shares have provisions providing for acceleration of vesting in connection with certain changes in control in some circumstances, as described in more detail below.

### SOSARs

The award agreement for outstanding SOSARs provides that in the event of a change in control under our Amended and Restated 2011 Stock Incentive Plan, any unvested SOSARs will automatically vest as of the date of the change in control, unless the SOSARs are replaced with an award meeting the following criteria:

- the replacement award must be denominated in securities listed on a national securities exchange;
- the replacement award must have a value equal to the SOSARs being replaced, including an aggregate exercise price equal to the aggregate exercise price of such SOSARs, an aggregate spread equal to the aggregate spread of such SOSARs as determined immediately prior to the relevant change in control, and a ratio of exercise price to the fair market value of the securities subject to such replacement award that is equal to the ratio of exercise price of such SOSARs to the price of our common stock at the time of the change in control;
- the vesting date(s) of the replacement award must be the same as the vesting date(s) of the performance-contingent restricted stock, subject to full acceleration of vesting of the replacement award in the event that the holder's employment is terminated by the surviving or successor entity without cause or by the holder for good reason, in each case as defined in the plan; and
- the replacement award must provide for immediate vesting upon any transaction with respect to the surviving or successor entity (or parent or subsidiary company thereof) of substantially similar character to a change in control as defined in the plan, or upon the securities constituting such replacement award ceasing to be listed on a national securities exchange.

In the event of a change in control under the plan as of December 31, 2015, if SOSARs outstanding on that date were not replaced with replacement awards meeting the criteria specified above, the executive officers as of that

date would have had vesting accelerated on awards with the following dollar values:

EXECUTIVE OFFICER	VALUE OF VESTED AWARD
Steve Eills	\$12,105,000
Monty Moran	\$12,105,000
Jack Hartung	\$4,035,000
Mark Crumpacker	\$ 1,519,300

### Performance Shares

The award agreement for our outstanding performance share awards provides that in the event of a change in control under our Amended and Restated 2011 Stock Incentive Plan that also constitutes a "change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation" under applicable U.S. Treasury Regulations, the performance share awards remain outstanding and vesting will only accelerate in the event the employment of the holder is terminated without cause or by the holder for good reason within two years following the change in control.

In the event of a change in control under the plan that also constitutes a "change in the ownership of a corporation" or a "change in the ownership of a substantial portion of a corporation's assets" under applicable U.S. Treasury Regulations, the performance share awards immediately vest at target unless they are replaced with an award meeting the following criteria:

- the replacement award must consist of securities listed on a national securities exchange;
- the replacement award must have a value equal to the value of the unvested performance share award assuming the target level of performance, calculated as if each unvested share were exchanged for the consideration (including all stock, other securities or assets, including cash) payable for one share of common stock in the change in control transaction;
- the vesting date of the replacement award must be September 30, 2016 (for the performance shares granted in 2013) or December 31, 2016 (for the performance shares granted in 2015, unless the date of such change in control is after December 31, 2016, in which case the vesting of such replacement award must be December 31, 2017), subject to full acceleration of vesting of the replacement award in the event that the holder's employment is terminated by the surviving or successor entity without cause or by the holder for good reason, in each case as defined in the plan, or the

holder's employment terminates due to the holder's medically diagnosed permanent physical or mental inability to perform his or her job duties; and

- the replacement award must provide for immediate vesting upon any transaction with respect to the surviving or successor entity (or parent or subsidiary company thereof) of substantially similar character to a change in control as defined in the plan, or the securities constituting such replacement award ceasing to be listed on a national securities exchange.

In the event of such a change in control under the plan as of December 31, 2015, if the outstanding performance share awards were not replaced with a replacement award meeting the criteria specified above, the executive officers as of that date would have had vesting accelerated on awards with the following dollar values:

EXECUTIVE OFFICER	VALUE OF VESTED AWARD
Steve Ells	\$11,942,027
Monty Moran	\$11,942,027
Jack Hartung	\$5,399,272
Mark Crumpacker	\$4,062,410

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors and holders of greater than 10 percent of our outstanding common stock to file initial reports of their ownership of our equity securities and reports of changes in ownership with the SEC. Based solely on a review of the copies of such reports furnished to us and written representations from our officers and directors, we believe that all Section 16(a) filing requirements were complied with on a timely basis in 2015, except that one Form 4 filed on behalf of Steve Ells to report a single sale transaction under a Rule 10b5-1 trading plan was filed late due to a brokerage firm's error in transmitting confirmation of the transaction.

# Certain Relationships and Related Party Transactions

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## **Registration Rights**

Prior to our initial public offering, certain of our current shareholders, including Steve Ells, our Chairman and Co-Chief Executive Officer, Monty Moran, our Co-Chief Executive Officer and member of our Board of Directors, and Albert S. Baldocchi and Darlene J. Friedman, members of our Board, entered into a registration rights agreement with us relating to shares of common stock they held at the time the agreement was executed. Under the agreement, these directors are entitled to piggyback registration rights with respect to registration statements we file under the Securities Act of 1933, as amended, subject to customary restrictions and pro rata reductions in the number of shares to be sold in an offering. We would be responsible for the expenses of any such registration.

## **Director and Officer Indemnification**

We have entered into agreements to indemnify our directors and executive officers, in addition to the indemnification provided for in our certificate of incorporation and bylaws. These agreements, among other things, provide for indemnification of our directors and executive officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of our company, arising out of such person's services as a director or executive officer of ours, any subsidiary of ours or any other company or enterprise to which the person provided services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.



The Board and our management do not know of any other matters to be presented at the annual meeting. If other matters do properly come before the annual meeting, it is intended that the persons named in the accompanying proxy vote the proxy in accordance with their best judgment on such matters.

## SHAREHOLDER PROPOSALS AND NOMINATIONS FOR 2017 ANNUAL MEETING

### Inclusion of Proposals in Our Proxy Statement and Proxy Card under the SEC's Rules

Any proposal of a shareholder intended to be included in our proxy statement and form of proxy/voting instruction card for the 2017 annual meeting of shareholders pursuant to SEC Rule 14a-8 must be received by us no later than November 24, 2016, unless the date of our 2017 annual meeting is more than 30 days before or after May 11, 2017, in which case the proposal must be received a reasonable time before we begin to print and send our proxy materials. All proposals must be addressed to Chipotle Mexican Grill, Inc., 1401 Wynkoop Street, Suite 500, Denver, CO 80202, Attn: Corporate Secretary.

### Bylaw Requirements for Shareholder Submission of Nominations and Proposals

A shareholder nomination of a person for election to our Board of Directors or a proposal for consideration at our 2017 annual meeting must be submitted in accordance with the advance notice procedures and other requirements set forth in Article II of our bylaws. These requirements are separate from, and in addition to, the requirements discussed above to have the shareholder nomination or other proposals included in our proxy statement and form of proxy/voting instruction card pursuant to the SEC's rules. Our bylaws require that the proposal or nomination must be received by our corporate Secretary at the above address no earlier than the close of business on January 11, 2017, and no later than the close of business on February 10, 2017, unless the date of the 2017 annual meeting is more than 30 days before or 60 days after May 11, 2017. If the date of the 2017 annual meeting is more than 30 days before or 60 days after May 11, 2017, we must receive the proposal or nomination no earlier than the 120<sup>th</sup> day before the meeting date and no later than the 90<sup>th</sup> day

before the meeting date, or if the date of the meeting is announced less than 100 days prior to the meeting date, no later than the tenth day following the day on which public disclosure of the date of the 2017 annual meeting is made.

## AVAILABILITY OF SEC FILINGS, CORPORATE GOVERNANCE GUIDELINES, CODE OF CONDUCT, CODES OF ETHICS AND COMMITTEE CHARTERS

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and all amendments to those reports filed with the SEC, our Code of Conduct, Codes of Ethics, Corporate Governance Guidelines, the charters of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee, and any reports of beneficial ownership of our common stock filed by executive officers, directors and beneficial owners of more than 10 percent of the outstanding shares of either class of our common stock are posted on and may be obtained on the Investors page of our website at [www.chipotle.com](http://www.chipotle.com) without charge, or may be requested (exclusive of exhibits), at no cost by mail to Chipotle Mexican Grill, Inc., 1401 Wynkoop Street, Suite 500, Denver, CO 80202, Attn: Corporate Secretary.

## DELIVERY OF MATERIALS TO SHAREHOLDERS WITH SHARED ADDRESSES

Beneficial holders who own their shares through a broker, bank or other nominee and who share an address with another such beneficial owner are only being sent one Notice of Internet Availability of Proxy Materials or set of proxy materials, unless such holders have provided contrary instructions. If you wish to receive a separate copy of these materials or if you are receiving multiple copies and would like to receive a single copy, please contact Chipotle investor relations by phone at (303) 605-1042, by writing to Investor Relations, Chipotle Mexican Grill, Inc., 1401 Wynkoop Street, Suite 500, Denver, Colorado, or by email to [ir@chipotle.com](mailto:ir@chipotle.com). We will promptly deliver a separate copy of the proxy materials upon written or oral request.

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## MISCELLANEOUS

If you request physical delivery of these proxy materials, we will mail along with the proxy materials our 2015 Annual Report, including our Annual Report on Form 10-K for fiscal year 2015 (and the financial statements included in that report) as filed with the SEC; however, it is not intended that the Annual Report on Form 10-K be a part of the proxy statement or a solicitation of proxies.

You are respectfully urged to enter your vote instruction via the Internet as explained on the Notice of Internet Availability of Proxy Materials that was mailed to you, or if you are a holder of record and have received a proxy card, via telephone as explained on the proxy card. We will appreciate your prompt response.

**By order of the Board of Directors**

/s/ Monty Moran  
Co-Chief Executive Officer, Secretary and Director

March 24, 2016

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## Appendix A-Proposed Certificate of Amendment to Certificate of Incorporation

### CERTIFICATE OF AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF CHIPOTLE MEXICAN GRILL, INC.

Pursuant to Section 242  
of the General Corporation Law of the State of Delaware

Chipotle Mexican Grill, Inc., a corporation duly organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

1. The Amended and Restated Certificate of Incorporation of the Corporation, as amended, is hereby amended by deleting, in its entirety, Section XI thereof.

The foregoing amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Chipotle Mexican Grill, Inc. has caused this Certificate to be executed by its duly authorized officer on this \_\_ day of \_\_\_\_\_, 2016.

CHIPOTLE MEXICAN GRILL, INC.

By: \_\_\_\_\_  
Name:  
Office:



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## Appendix B—Proposed Amendment to Bylaws

**If Proposal 5 is approved by shareholders, Sections 9 through 12 of Article II of the Company's Bylaws will be amended and restated as set forth below. Proposed additions are indicated by double underline.**

### Section 9. Notice of Shareholder Business and Nominations.

#### (a) Annual Meetings of Shareholders.

(i) Except as provided in Section 12 of this Bylaw, Nominations of persons for election to the Board of Directors and the proposal of other business to be considered by the shareholders may be made at an annual meeting of shareholders (A) pursuant to the notice of meeting given by or at the direction of the Board of Directors, (B) by or at the direction of the Board of Directors, or (C) by any shareholder of the Corporation who: (1) was a shareholder of record at the time of giving of notice provided for in this Bylaw and at the time of the annual meeting, (2) is entitled to vote at the meeting, and (3) complies with the notice procedures set forth in this Bylaw as to such business or nomination. Clause (C) or Section 12 of this Bylaw shall be the exclusive means for a shareholder to make nominations or submit other business (other than matters properly brought under Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and included in the Corporation's notice of meeting) before an annual meeting of shareholders. Only persons who are nominated in accordance with Section 9(a) or Section 12 of this Bylaw will be eligible for election at an annual meeting of shareholders as Directors of the Corporation.

(ii) Without qualification, for any nominations or any other business to be properly brought before an annual meeting by a shareholder pursuant to Section 9-(a)(i)(C) or Section 12 of this Bylaw, the shareholder must have given timely notice thereof in writing to the Secretary and such other business must otherwise be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day and not later than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to the date of such annual meeting and not later than the close of business on the later of the 90th day prior to the date of such annual meeting or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a shareholder's notice as described above. To be in proper form, a shareholder's notice (whether given pursuant to this Section 9(a)(ii), or Section 9(b) or Section 12) to the Secretary must: (A) set forth, as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner, if any, (2) (x) the class or series and number of shares of the Corporation which are, directly or indirectly, owned beneficially and of record by such shareholder and such beneficial owner, (y) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such shareholder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation, (z) any proxy, contract, arrangement, understanding, or relationship pursuant to which such shareholder has a right to vote any shares of any security of the Corporation, (xx) any short interest in any security of the Corporation (for purposes of this Bylaw a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (yy) any rights to dividends on the shares of the Corporation owned beneficially by such shareholder that are separated or separable from the underlying shares of the Corporation, (zz) any

# Appendix B

(continued)

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proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (xxx) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date), and (yyy) any other information relating to such shareholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; (B) if the notice relates to any business other than a nomination of a director or directors that the shareholder proposes to bring before the meeting, set forth (1) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of such shareholder and beneficial owner, if any, in such business and (2) a description of all agreements, arrangements and understandings between such shareholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such shareholder; (C) set forth, as to each person, if any, whom the shareholder proposes to nominate for election or reelection to the Board of Directors (1) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) and (2) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant; and (3) with respect to each nominee for election or reelection to the Board of Directors, include a completed and signed questionnaire, representation and agreement required by Section 10 of this Bylaw. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee.

(iii) Notwithstanding anything in the second sentence of Section 9(a)(ii) of this Bylaw to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to (i) the notice of meeting given by or at the direction of the Board of Directors, or (ii) the instruction of the Board of Directors. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (A) by or at the direction of the Board of Directors or (B) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any shareholder of the Corporation who (1) is a shareholder of record at

the time of giving of notice provided for in this Bylaw and at the time of the special meeting, (2) is entitled to vote at the meeting, and (3) complies with the notice procedures set forth in this Bylaw as to such nomination. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the shareholder's notice required by Section 9(a)(ii) of this Bylaw with respect to any nomination (including the completed and signed questionnaire, representation and agreement required by Section 10 of this Bylaw) shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to the date of such special meeting and not later than the close of business on the later of the 90th day prior to the date of such special meeting or, if the first public announcement of the date of such special meeting is less than 100 days prior to the date of such special meeting, the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall any adjournment or postponement of a special meeting or the announcement thereof commence a new time period for the giving of a shareholder's notice as described above.

(c) General.

(i) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(ii) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act and the rules and regulations promulgated thereunder.

(iii) Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw; provided, however, that any references in these Bylaws to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit the requirements applicable to nominations or proposals as to any other business to be considered pursuant to Section 9(a)(i)(C), ~~or~~ Section 9(b) or Section 12 of this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (A) of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (B) of the holders of any series of Preferred Stock if and to the extent provided for under law, the Certificate of Incorporation or these Bylaws.

(iv) Notwithstanding the foregoing provisions of this Bylaw, if the shareholder (or a qualified representative of the shareholder) does not appear at the annual or special meeting of shareholders of the Corporation to present a nomination or item of business, such proposed business shall not be transacted and such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

Section 10. Submission of Questionnaire, Representation and Agreement.

To be eligible to be a nominee for election or reelection as a director of the Corporation, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section 9 of this Bylaw, or, in the case of a Shareholder Nominee, the time periods prescribed for delivery of a Notice of Proxy Access Nomination Section 12 of this Bylaw) to the Secretary at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request) that such person (a) is not and will not become a party to (i) any agreement, arrangement or understanding with, and has not given any commitment or

# Appendix B

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assurance to, any person or entity as to how such person, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (ii) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the Corporation, with such person's fiduciary duties under applicable law, (b) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (c) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Corporation, and will comply with, all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation.

Section 11. Opening of Polls. The date and time of the opening and the closing of the polls for each matter upon which the shareholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the person presiding over any meeting of shareholders shall have the right and authority to convene and to adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such presiding person, are appropriate for the proper conduct of the meeting.

Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the presiding person of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to shareholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the presiding person of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants.

The presiding person at any meeting of shareholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if such presiding person should so determine, such presiding person shall so declare to the meeting and any such matter or business not properly brought before the meeting shall not be transacted or considered. Unless and to the extent determined by the Board of Directors or the person presiding over the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

## Section 12. Proxy Access for Director Nominations.

- (a) Whenever the Board of Directors solicits proxies with respect to the election of directors at an annual meeting of the shareholders, subject to the provisions of Section 12 of this Bylaw, the Corporation shall include in its proxy statement for such annual meeting, in addition to any person nominated for election by the Board of Directors or any committee thereof, the name, together with the Required Information, of any person or persons, as applicable, nominated for election (the "Shareholder Nominee(s)") to the Board of Directors by a shareholder or group of no more than twenty (20) shareholders that satisfies the requirements of Section 12(d) (the "Eligible Shareholder") of this Bylaw, and who expressly elects at the time of providing the notice required by Section 12 (the "Notice of Proxy Access Nomination") of this Bylaw to have its nominee or nominees, as applicable, included in the Corporation's proxy materials pursuant to Section 12 of this Bylaw. For purposes of Section 12 of this Bylaw, the "Required Information" that the Corporation will include in its proxy statement is the information provided to the Secretary concerning the Shareholder Nominee(s) and the Eligible Shareholder that is required to be disclosed in the Corporation's proxy statement by Section 14 of the Exchange Act, and rules and regulations promulgated thereunder, and, if the Eligible Shareholder so elects, a written statement, not to exceed 500 words, in support of the Shareholder Nominee(s)' candidacy (the "Statement"). Notwithstanding anything to the contrary contained in Section 12 of this Bylaw, the Corporation may omit from its proxy materials any information or Statement (or portion thereof) that it, in good faith, believes would violate any applicable law or regulation.

- (b) To be timely for purposes of Section 12 of this Bylaw, the Notice of Proxy Access Nomination must be addressed to the Secretary and delivered to or mailed to and received at the principal executive offices of the Corporation no more than 150 calendar days and not less than 120 calendar days prior to the anniversary date of the date (as specified in the Corporation's proxy materials for its immediately preceding annual meeting of shareholders) on which the Corporation first mailed its proxy materials for its immediately preceding annual meeting of shareholders. In no event will an adjournment or postponement of an annual meeting of shareholders or the announcement thereof commence a new time period for the giving of a Notice of Proxy Access Nomination as provided above.
- (c) The maximum number of Shareholder Nominees nominated by all Eligible Shareholders that will be included in the Corporation's proxy materials with respect to an annual meeting of shareholders shall not exceed the greater of (i) one director or (ii) 20% of the number of directors in office as of the last day on which a Notice of Proxy Access Nomination may be delivered pursuant to and in accordance with Section 12 of this Bylaw (the "Final Proxy Access Nomination Date"), or if such amount is not a whole number, the closest whole number below 20%. In the event that one or more vacancies for any reason occurs on the board after the Final Proxy Access Nomination Date but before the date of the annual meeting and the Board of Directors resolves to reduce the size of the Board in connection therewith, the maximum number of Shareholder Nominees included in the Corporation's proxy materials shall be calculated based on the number of directors in office as so reduced. Any individual nominated by an Eligible Shareholder for inclusion in the Corporation's proxy materials pursuant to Section 12 of this Bylaw whom the Board of Directors decides to nominate as a nominee for Director shall be counted as one of the Shareholder Nominees for purposes of determining when the maximum number of Shareholder Nominees provided for in Section 12 of this Bylaw has been reached. Any Eligible Shareholder submitting more than one Shareholder Nominee for inclusion in the Corporation's proxy materials pursuant to Section 12 of this Bylaw shall rank such Shareholder Nominees based on the order that the Eligible Shareholder desires such Shareholder Nominees to be selected for inclusion in the Corporation's proxy statement in the event that the total number of Shareholder Nominees submitted by Eligible Shareholders in the Corporation's proxy statement pursuant to Section 12 of this Bylaw exceeds the maximum number of nominees provided for in Section 12 of this Bylaw. In the event that the number of Shareholder Nominees submitted by Eligible Shareholders pursuant to Section 12 of this Bylaw exceeds the maximum number of nominees provided for in Section 12 of this Bylaw, the highest ranking Shareholder Nominee who meets the requirements of this Section 12 from each Eligible Shareholder will be selected for inclusion in the Corporation's proxy materials until the maximum number is reached, going in order of the amount (largest to smallest) of shares of common stock of the Corporation each Eligible Shareholder disclosed as owned in its respective Notice of Proxy Access Nomination submitted to the Corporation. If the maximum number is not reached after the highest ranking Shareholder Nominee who meets the requirements of Section 12 of this Bylaw from each Eligible Shareholder has been selected, this process will continue as many times as necessary, following the same order each time, until the maximum number is reached. Notwithstanding anything to the contrary contained in Section 12 of this Bylaw, if the Corporation receives notice pursuant to Section 9(c) of this Bylaw that a shareholder intends to nominate for election at such meeting a number of nominees greater than or equal to a majority of the total number of directors to be elected at such meeting, no Shareholder Nominees will be included in the Corporation's proxy materials with respect to such meeting pursuant to Section 12 of this Bylaw.
- (d) For purposes of Section 12 of this Bylaw, an Eligible Shareholder shall be deemed to "own" only those outstanding shares of common stock of the Corporation as to which the shareholder possesses both (i) the full voting and investment rights pertaining to the shares and (ii) the full economic interest in (including the opportunity for profit from and risk of loss on) such shares; provided, that the number of shares calculated in accordance with clauses (i) and (ii) shall not include any shares (x) sold by such shareholder or any of its affiliates in any transaction that has not been settled or closed, (y) borrowed by such shareholder or any of its affiliates for any purposes or purchased by such shareholder or any of its affiliates pursuant to an agreement to resell or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such shareholder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares of outstanding common stock of the Corporation, in any such case which instrument or agreement has, or its intended to have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, such shareholder's or its affiliates' full right to vote or direct the voting of any such shares, and/or (2) hedging, offsetting or altering to any degree any gain or loss realized or



# Appendix B

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realizable from maintaining the full economic ownership of such shares by such shareholder or affiliate. For purposes of Section 12 of this Bylaw, a shareholder shall "own" shares held in the name of nominee or other intermediary so long as the shareholder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. A shareholder's ownership of shares shall be deemed to continue during any period in which the shareholder has delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement which is revocable at any time by the shareholder. The terms "owned," "owning" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of the common stock of the Corporation are "owned" for these purposes shall be determined by the Board of Directors or any committee thereof. For purposes of Section 12 of this Bylaw, the term "affiliate" or "affiliates" shall have the meaning ascribed thereto under the General Rules and Regulations under the Exchange Act.

- (e) In order to make a nomination pursuant to Section 12 of this Bylaw, an Eligible Shareholder must have owned the Required Ownership Percentage of the Corporation's outstanding common stock (the "Required Shares") continuously for the Minimum Holding Period as of both the date of the Notice of Proxy Access Nomination is delivered to or mailed to and received by the Secretary in accordance with Section 12 of this Bylaw and the record date for determining the shareholders entitled to vote at the annual meeting, and must continue to own the Required Shares through the meeting date. For purposes of Section 12 of this Bylaw, the "Required Ownership Percentage" is 5% or more, and the "Minimum Holding Period" is 3 years. Within the time period specified in Section 12 of this Bylaw for Delivering the Notice of Proxy Access Nomination, an Eligible Shareholder must provide the following information in writing to the Secretary: (i) one or more written statements from the record holder of the shares (and from each intermediary through which the shares are or have been held during the Minimum Holding Period) verifying that, as of a date within seven calendar days prior to the date of the Notice of Proxy Access Nomination is delivered to or mailed to and received by the Secretary, the Eligible Shareholder owns, and has owned continuously for the Minimum Holding Period, the Required Shares, and the Eligible Shareholder's agreement to provide, within five business days after the record date for the annual meeting, written statements from the record holder and intermediaries verifying the Eligible Shareholder's continuous ownership of the Required Shares through the record date; (ii) a copy of the Schedule 14N that has been filed with the Securities and Exchange Commission as required by Rule 14a-18 under the Exchange Act; (iii) the information, representations and agreements that are the same as those that would be required to be set forth in a shareholder's notice of nomination pursuant to Section 9(a)(ii) of this Bylaw; (iv) the consent of each Shareholder Nominee to being named in the proxy statement as a nominee and to serving as a Director if elected; (v) a representation that the Eligible Shareholder (including each member of any group of shareholders that together is an Eligible Shareholder hereunder) (A) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control at the Corporation, and does not presently have such intent, (B) presently intends to maintain qualifying ownership of the Required Shares through the date of the annual meeting, (C) has not engaged and will not engage in, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(1) under the Exchange Act in support of the election of any individual as a Director at the annual meeting other than its Shareholder Nominee(s) or a nominee of the Board of Directors, (D) agrees to comply with all applicable laws and regulations applicable to the use, if any, of soliciting material, and (E) will provide facts, statements and other information in all communications with the Corporation and its shareholders that are or will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; (vi) a representation as to the Eligible Shareholder's (including each member of any group of shareholders that together is an Eligible Shareholder hereunder) intentions with respect to maintaining qualifying ownership of the Required Shares for at least one year following the annual meeting; (vii) an undertaking that the Eligible Shareholder agrees to (A) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Shareholder's communications with the shareholders of the Corporation or out of the information that the Eligible Shareholder provided to the Corporation and (B) indemnify and hold harmless the Corporation and each of its directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its directors, officers or employees arising out of any nomination submitted by the Eligible Shareholder pursuant to Section 12 of this Bylaw.



- (f) Within the time period specified in Section 12 of this Bylaw for delivering the Notice of Proxy Access Nomination, each Shareholder Nominee must deliver to the Secretary the representations, agreements and other information required by Section 10 of this Bylaw.
- (g) In the event that any information or communications provided by the Eligible Shareholder or any Shareholder Nominees to the Corporation or its shareholders ceases to be true and correct in all material respects or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Shareholder or Shareholder Nominee, as the case may be, shall promptly notify the Secretary of any defect in such previously provided information and of the information that is required to correct any such defect.
- (h) The Corporation shall not be required to include, pursuant to Section 12 of this Bylaw, a Shareholder Nominee in its proxy materials for any meeting of shareholders (i) for which the Secretary receives a notice that a shareholder has nominated such Shareholder Nominee for election to the Board of Directors pursuant to the advance notice requirements for shareholder nominees for director set forth in Section 9(a) of this Bylaw, (ii) if the Eligible Shareholder (including each member of any group of shareholders that together is an Eligible Shareholder hereunder) that has nominated such Shareholder Nominee has engaged in or is currently engaged in, or has been or is a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(1) under the Exchange Act in support of the election of any individual as a Director at the annual meeting other than its Shareholder Nominee(s) or a nominee of the Board of Directors, (iii) if the Shareholder Nominee is or becomes a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity other than the Corporation, or is receiving or will receive any such compensation or other payment from any person or entity other than the Corporation, in each case in connection with service as a Director of the Corporation, (iv) who is not independent under the listing standards of each principal U.S. exchange upon which the common stock of the Corporation is listed, any applicable rules of the Securities and Exchange Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of the Corporation's directors, in each case as determined by the Board of Directors, (v) whose election as a member of the Board of Directors would cause the Corporation to be in violation of these Bylaws, the Certificate of Incorporation, as amended, the rules and listing standards of the principal U.S. exchanges upon which the common stock of the Corporation is traded, or any applicable state or federal law, rule or regulation, (vi) who is or has been within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, (vii) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offense) or has been convicted in such a criminal proceeding within the past 10 years, (viii) who is subject to any order of the type specific in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933, as amended, (ix) if such Shareholder Nominee or the applicable Eligible Shareholder (including each member of any group of shareholders that together is an Eligible Shareholder hereunder) shall have provided information to the Corporation in respect to such nomination that was untrue in any material respect or omitted to state a material fact necessary in order to make the statement made, in light of the circumstances under which they were made, not misleading, as determined by the Board of Directors or any committee thereof, or (x) the Eligible Shareholder (including each member of any group of shareholders that together is an Eligible Shareholder hereunder) or applicable Shareholder Nominee fails to comply with its obligations pursuant to Section 12 of this Bylaw.
- (i) Notwithstanding anything to the contrary set forth herein, the Board of Directors or the chairman of the annual meeting shall declare a nomination by an Eligible Shareholder to be invalid, and such nomination shall be disregarded notwithstanding that proxies in respect of such vote may have been received by the Corporation, if (i) the Shareholder Nominee(s) and/or the applicable Eligible Shareholder (or any member of any group of shareholders that together is an Eligible Shareholder) shall have breached its or their obligations under Section 12 of this Bylaw as determined by the Board of Directors or the chairman of the annual meeting or (ii) the Eligible Shareholder (or a qualified representative thereof) does not appear at the annual meeting to present any nomination pursuant to Section 12 of this Bylaw. In the event of any such declaration by the Board of Directors or the chairman of the annual meeting, the Eligible Shareholder (and any member of any group of shareholders that together is an Eligible Shareholder) whose nomination(s) was/were subject to such declaration will be ineligible to be an Eligible Shareholder (or a member of any group of shareholders that together is an Eligible Shareholder) pursuant to, Section 12 of this Bylaw for the next two annual meetings.

# Appendix B

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- (j) Any Shareholder Nominee who is included in the Corporation's proxy materials for a particular annual meeting of Shareholders but either (i) withdraws from or becomes ineligible or unavailable for election at the annual meeting, or (ii) does not receive at least 25% of the votes cast in favor of such Shareholder Nominee's election, will be ineligible to be a Shareholder Nominee pursuant to this Article II, Section 12 for the next two annual meetings. For the avoidance of doubt, the immediately preceding sentence shall not prevent any shareholder from nominating any person to the Board of Directors pursuant to and in accordance with Section 9 of this Bylaw.
- (k) This Section 12 of this Article shall be the exclusive method for shareholders to include nominees for Director in the Corporation's proxy materials.

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## **MANAGEMENT TEAM**

Steve Ells  
*Founder, Chairman & Co-Chief Executive Officer*

Monty Moran  
*Co-Chief Executive Officer*

Jack Hartung  
*Chief Financial Officer*

Mark Crumpacker  
*Chief Creative and Development Officer*

## **BOARD OF DIRECTORS**

Steve Ells  
*Chairman of the Board*

Monty Moran  
*Director*

Albert S. Baldocchi  
*Director*  
*Independent Financial Consultant and Strategic Advisor*

John S. Charlesworth  
*Director*  
*President, Midwest Division, McDonald's Corp. (retired)*

Neil W. Flanzraich  
*Director*  
*Executive Chairman of Cantex Pharmaceuticals, Inc.; Private Investor*

Patrick J. Flynn  
*Director*  
*Executive Vice President, Strategic Planning and Acquisitions, McDonald's Corp. (retired)*

Darlene J. Friedman  
*Director*  
*Senior Vice President, Human Resources, Syntex Corp. (retired)*

Stephen Gillett  
*Director*  
*Senior Executive Leader at Google[x] and Advisor to Google Ventures*

Kimbal Musk  
*Director*  
*Entrepreneur and Co-Founder of the Kitchen*

## **STOCK EXCHANGE LISTING**

New York Stock Exchange  
*Symbol: CMG*

## **AUDITORS**

Ernst & Young LLP  
*Denver, Colorado*

## **STOCK TRANSFER AGENT**

*By mail:*  
Wells Fargo Shareowner Services  
1110 Centre Pointe Curve, Suite 101, Mendota Heights, MN 55120

*By phone:*  
1-800-401-1957

*Online:*  
[www.shareowneronline.com](http://www.shareowneronline.com)

# FOOD WITH INTEGRITY

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We prepare our delicious ingredients simply, using classic cooking techniques, without added sugar, artificial sweeteners, flavors, or colors. This includes meat raised without antibiotics or added hormones, pasture-raised dairy, and only non-GMO ingredients.