CHIPOTLE MEXICAN GRILL

# 2016 ANNUAL REPORT

## AND PROXY STATEMENT

Dear fellow shareholders:

As we enter 2017, we do so with a broader mission – to ensure that better food, made with whole, unprocessed ingredients, is accessible to everyone — and with an unwavering commitment to delivering an excellent guest experience in every restaurant, every day.

While we still have work to do to fully restore our reputation and our economic model, we are well on our way to dramatically simplifying our business and perfecting the customer experience in our restaurants.

I am heartened by the dedication and passion shown by our teams during what was an incredibly difficult year. Our crews, managers, field leaders, and support staff have displayed steadfast resolve to do what needs to be done to strengthen our company and delight our customers.

With the entire company united behind our renewed focus, there's no doubt that Chipotle is emerging from a difficult year stronger than ever before. We are cooking for more than one million customers daily; preparing burritos, tacos and salads from simple, high-quality ingredients. And we will continue to advocate for food that is grown, raised, and prepared responsibly.

My confidence in Chipotle comes on the heels of a year that was the most challenging in our history, but one where we made significant progress in many key areas. Specifically, during 2016, we:

- Made meaningful changes to our leadership structure to strengthen our culture, improve governance, and sharpen our focus on the customer;
- Implemented an improved, industry-leading food safety system and assembled a Food Safety Advisory Council to fulfill our commitment to establishing Chipotle as a food safety leader;
- Renewed our focus on the customer and the restaurant experience we are providing;
- Simplified our restaurant operations with a return to "doing a few things extraordinarily well;"
- Greatly expanded our use of consumer data analytics to improve our marketing efficiency;
- Made significant investments in digital programs to enhance the guest experience; and
- Recovered a significant portion of lost sales and improved our margins throughout the year.

As many great leaders have attested throughout history, by overcoming adversity you become stronger. We have faced greater challenges over the last year than at any time in our history, but we have responded to these challenges with an unrelenting determination, and I am confident we will emerge a better restaurant company than ever before.

On behalf of the Board of Directors and all of Chipotle, I thank you for your support as shareholders. I am optimistic about Chipotle's ability to fulfill our mission of making great food accessible to everyone, and am confident that we are focused on the right priorities: improving the guest experience, marketing our restaurants to build sales, and restoring our economic model. With our compelling mission, our newly strengthened clarity of focus, and a team that is more committed and motivated than ever, we are in a strong position to drive our business forward and create significant shareholder value. I look forward to the next phase of growth and to building upon what we have already achieved for our customers, our employees, our farm and supplier partners, and our shareholders.

Sincerely,

Steve Ells
Founder, Chairman and 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, 2016**

**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**<br>**(State or other jurisdiction of incorporation or organization)** | **84-1219301**<br>**(IRS Employer Identification No.)** |
| **1401 Wynkoop Street, Suite 500 Denver, CO**<br>**(Address of Principal Executive Offices)** | **80202**<br>**(Zip Code)** |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common stock, par value $0.01 per share** | **New York Stock Exchange** |

**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 (do not check if a smaller reporting company) | ☐ 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, 2016, the aggregate market value of the registrant's outstanding common equity held by non-affiliates was $6.6 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 31, 2017, there were 28,772,830 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 2017 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, 2016.

# TABLE OF CONTENTS

CHIPOTLE MEXICAN GRILL

## PART I



## PART II



## PART III



## PART IV

*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 have implemented; the impact of catering and delivery offerings and technology initiatives; the expected impact of food safety enhancements on our restaurant operating costs; projections of comparable restaurant sales increases and sales trends we expect for 2017; forecasts of trends in food, beverage and packaging costs, other operating costs, general and administrative expenses and other cost items for 2017; forecasts of the number of restaurants we expect to open in 2017; expected effective tax rates for the year; statements about possible repurchases of our common stock; projections of restaurant development costs; 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, 2016, we operated 2,198 Chipotle restaurants throughout the United States, as well as 29 international Chipotle restaurants, and we also had 23 restaurants in operation in other non-Chipotle concepts. We focus on finding the highest quality ingredients we can to make great tasting food; on building a strong people culture that is centered on providing an excellent guest experience; 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 195 and 210 additional restaurants in 2017.

Throughout our history as a public company, we have pursued a mission to change the way people think about and eat fast food. The fast food landscape has changed dramatically over Chipotle's 23-year history. The changes in the industry suggest that we may have achieved our mission, with a number of concepts built using service and sourcing formats that closely resemble ours — with more selective sourcing, food prepared onsite, and a service model that allows customers to choose exactly what they eat. Looking at what we have accomplished, we have expanded our mission. Today, we are working to *Ensure that better food, prepared from whole, unprocessed ingredients is accessible to everyone*. We are also aiming to simplify our business focus, to emphasize only those things that result in an excellent guest experience in our restaurants.

We manage our operations and restaurants based on 11 regions that aggregate into one reportable segment. Financial information about our operations, including our revenues and net income for the years ended December 31, 2016, 2015, and 2014, and our total assets as of December 31, 2016 and 2015, is included in our consolidated financial statements and accompanying notes in Item 8. "Financial Statements and Supplementary Data." 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 Plans to Return to Sales and Profitability Growth and Restore Our Economic Model — Our expansion into international markets may present increased risks due to lower customer awareness of our brand... "* in Item 1A. "Risk Factors."

## Our Focus on Safe and Delicious Food Made with Better Ingredients

*A decidedly focused menu.* Chipotle restaurants list only a few entree items: burritos, burrito bowls, tacos and salads. But because customers can choose from five 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 will consider additions that we think make sense. For example, in 2014 we introduced Sofritas, a vegetarian protein option, and in 2016 we introduced chorizo, a spicy ground sausage made from chicken and pork.

In preparing our food, we use classic cooking methods. 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. Our restaurants do not have microwaves or freezers. Ingredients we use include chicken, steak and chorizo that is grilled in our restaurants, carnitas (seasoned and braised pork), barbacoa (spicy shredded beef), Sofritas (organic braised tofu) and vegetarian pinto and black beans. We add our rice, which is tossed with lime juice, freshly chopped cilantro, and a pinch of salt, as well as freshly shredded cheese, sour cream, lettuce, peppers and onions, to our entrees depending on each customer's request. We use various herbs, spices and seasonings to prepare our meats and vegetables. We also make a variety of extras such as guacamole, salsas and tortilla chips seasoned with fresh lime juice and salt. In addition to sodas, fruit and tea drinks and organic milk, most of our restaurants also offer a selection of beer and margaritas. Our food is prepared from scratch from whole ingredients, some of which is prepared in our restaurants and some is prepared with the same fresh ingredients in larger batches in commissaries.

*Better Food.* Serving high quality food while still charging reasonable prices is critical to our mission to ensure that better food is accessible to everyone. We believe that purchasing fresh ingredients and preparing them from scratch in our restaurants 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 the food we serve. We're all about simple, fresh food without artificial flavors or fillers — just genuine raw ingredients and their individual, delectable flavors.

In all of our Chipotle restaurants, we endeavor to serve only meats that were raised in accordance with criteria we've established in an effort to improve sustainability and promote animal welfare, and without the use of non-therapeutic antibiotics or added hormones. 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 periodically serve conventionally raised chicken or beef from time to time 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, by which we mean produce grown by suppliers whose practices conform to our priorities with respect to environmental considerations and employee welfare. 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 better ingredients also extends to the dairy products we serve. We started 2017 with all the sour cream and cheese we buy for our U.S. Chipotle restaurants made with milk that comes from cows that are not given rBGH (recombinant bovine growth hormone) and sourced from pasture-based dairies that provide an even higher standard of animal welfare by providing outdoor access for their cows.

In addition, none of the ingredients in our food (not including beverages) in U.S. Chipotle restaurants contain genetically modified organisms, or GMOs. While the meat and poultry we serve is not genetically modified, the animals are likely fed a diet of grains 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. Additionally, some of the beverages we serve are sweetened with corn-based sweeteners, which are typically made with genetically modified corn.

*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 the suppliers' understanding of our mission. We work closely with our suppliers and seek to develop mutually beneficial long-term relationships with them. We 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 also 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 tariffs and other issues, weather, exchange rates, foreign demand, crises and other world events that may affect our ingredient prices. Certain key ingredients (including 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."

*Quality Assurance and Food Safety.* Our business was severely impacted beginning in the fourth quarter of 2015 by food safety incidents that were associated with a number of our restaurants. More discussion of these incidents can be found in "*Risks Related to Our Plans to Return to Sales and Profitability Growth and Restore Our Economic Model — We may continue to be negatively impacted by food safety incidents associated with our restaurants beginning in the fourth quarter of 2015. . .* " in Item 1A. "Risk Factors." In the wake of these incidents, strengthening trust among our customers and in our brand has become essential to restoring our business results and achieving our mission. This begins with our commitment to serving safe, high quality food. Quality and food safety measures are integrated throughout our supply chain, from the farms that supply our food all the way through to our front line and into our customers' hands. We maintain a limited list of approved suppliers, many of which are among the top suppliers in the industry. Our quality assurance department establishes and monitors our quality and food safety programs, and works closely with our suppliers to ensure our high standards are met throughout the supply chain. Our training, operations, and risk management departments develop and implement operating standards for food quality, preparation, cleanliness, employee health protocols, and safety in the restaurants. Our food safety programs are also designed to ensure that we not only continue to comply with applicable federal, state and local food safety regulations, but establish Chipotle as an industry leader in food safety.

While our food safety programs have always been carefully designed and have been in conformance with applicable industry standards, over the last year our Executive Director of Food Safety, a respected expert in the industry, has led a comprehensive assessment and enhancement of our food safety programs and practices. Components of our enhanced food safety programs include:

- supplier interventions (steps to avoid food safety risks before ingredients reach Chipotle);
- advanced technology (tools that eliminate pathogens while maintaining food quality);
- farmer support and training;
- enhanced restaurant procedures (protocols for handling ingredients and sanitizing surfaces in our restaurants);
- food safety certification;
- internal and third party restaurant inspections; and
- ingredient traceability.

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. To be sure that our food safety programs continue to evolve in ways that will help maintain leadership in this important area, we have established a Food Safety Advisory Council that is comprised of some of the nation's foremost food safety authorities. The Food Safety Advisory Council is charged with evaluating our programs, both in practice and implementation, and advising us on ways to elevate our already high standards for food safety.

## Delivering an Excellent Guest Experience

There is nothing more important than treating our guests to an excellent experience every time they visit one of our restaurants. We believe that restaurants that deliver a consistently great experience attract customers more frequently and engender greater customer loyalty. Creating an excellent guest experience starts with hiring great people, training them on our high standards, and creating great teams in our restaurants. We have identified 13 characteristics of top performing employees, and use these characteristics as a guide to help us identify the very best people for our restaurants. Then, we invest in properly training each employee so that they can seamlessly deliver an excellent experience that our guests will enjoy. Our restaurant training focuses on the guest experience by ensuring we are serving safe and delicious food quickly, in a clean and hospitable environment.

*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 a majority 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, though our busier restaurants tend to have slightly more employees. We generally have two shifts at our restaurants, which simplifies scheduling and provides stability for our employees. We also 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, executive regional directors and restaurant support officers.

*Innovation.* We are prioritizing the development of technological and other innovations, such as digital/mobile ordering platforms, and delivery and catering choices, that allow our guests to engage with Chipotle in whatever fashion is most convenient for them. By allowing our customers to order and receive their food in a variety of ways, we believe we can attract more customers and help encourage customers to choose us more frequently. In order to successfully deliver a great experience for customers, we are emphasizing the optimization of our second make-lines, which allow us to fulfill catering or online orders without disrupting throughput on our main service line. We are also integrating technology into our applications that provides customers with more precise and earlier pick-up times, which help our restaurants fill digital orders more quickly and accurately, improving the experience for customers who use these platforms. Technological innovations also improve the experience of other guests by helping to improve throughput for those who choose to dine in our restaurants. Additionally, we have enhanced our data capabilities to allow us to better identify individual customers and their unique frequency patterns, and to target our marketing and promotional efforts at the individual level. We believe the advancements we have made in this area will help us as we continue to target lapsed customers, and seek to build frequency among newer customers.

## Marketing

A great dining experience in our restaurants has always been our most powerful marketing. 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. Our advertising and promotional programs and in-store communications all help to communicate 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. On the heels of the safety-related incidents, we redoubled our efforts to attract customers to our restaurants and to provide a restaurant experience that helps keep them as or convert them into loyal, repeat customers. Generating new customers and enhancing customer frequency will be a central objective of our marketing efforts in 2017.

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 commitment to our Food With Integrity philosophy 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 have a dedicated team of field marketing staff that helps connect our restaurants to local communities through fundraisers, sponsorships and participation in local events.

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 national and regional chains. Many of our competitors offer dine-in, carry-out, catering, and delivery services. In recent years, competition has increased significantly from restaurant formats like ours that serve higher quality food, quickly and at a reasonable price. We believe that this competition has made it more challenging to maintain or increase the frequency of customer visits, but continue to believe that Chipotle can differentiate itself with our mission to ensure that better food is accessible to everyone.

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. For more information, see "*Risks Related to Operating in the Restaurant Industry — Competition could adversely affect us*" in Item 1A. "Risk Factors." We also compete with other restaurants and retail establishments for site locations and restaurant employees.

## Restaurant Site Selection

We believe restaurant site selection is critical to our success and growth strategy and thus we devote substantial time and effort to evaluating each potential restaurant 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, as well as support from an internal real estate strategy and research group. 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 for each potential restaurant site. 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.

## Other Restaurant Concepts

We believe that the fundamental principles on which our restaurants are based – finding better ingredients, preparing them using classic techniques in front of the customer, and serving them in an interactive format with great teams dedicated to providing an excellent dining experience – can be adapted to cuisines other than the food served at Chipotle. Over the previous 5 years, we've explored this idea by creating new and innovative concepts such as Tasty Made, a burger concept we opened with a single restaurant in October, 2016, as well as investing in consolidated entities with partners that are developing additional concepts, such as Pizzeria Locale, a fast-casual pizza restaurant that now has seven restaurants in four states. Our first new restaurant concept was ShopHouse Southeast Asian Kitchen, which we opened in 2011 and grew to a total of 15 restaurants. ShopHouse was not able to achieve a level of sales and profitability that made it attractive to us for future investment, and we announced in the fourth quarter of 2016 that we are exploring strategic alternatives for the concept. In 2017, our focus will remain 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-sale 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. Our online ordering system allows guests to place orders online or through our mobile app. Orders taken remotely are routed to the point-of-sales system based on the time of customer order pickup. We also continue to modernize and make investments in our information technology networks and infrastructure, specifically in our physical and technological security measures to anticipate cyber-attacks and prevent breaches, and to provide improved control, security and scalability. Enhancing the security of our financial data, customer information and other personal information remains a priority for us.

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, 2016, we had about 64,570 employees, including about 4,700 salaried employees and about 59,870 hourly employees. None of our employees are unionized or covered by a collective bargaining agreement.

### Seasonality

Seasonal factors influencing our business are described under the heading "Quarterly Financial Data/Seasonality" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### Our Intellectual Property and Trademarks

"Chipotle," "Chipotle Mexican Grill," "Unburritable," "Food With Integrity," "Fresh Is Not Enough, Anymore," "The Gourmet Restaurant Where You Eat With Your Hands," "Responsibly Raised," 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 and have registered elements of our restaurant design for trade dress protection in the U.S. as well.

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, including an investor relations section at 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, 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.

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.

## ITEM 1A. RISK FACTORS

### Risks Related to our Plans to Return to Sales and Profitability Growth and Restore our Economic Model

***Our sales and profitability will continue to fall well short of our past results unless we can significantly increase comparable restaurant sales, and there are material risks to our ability to do so.***

In 2016 we experienced lower sales than the preceding year for the first time in our history as a public company and our average restaurant volumes have declined from $2.532 million as of September 30, 2015 to $1.868 million as of December 31, 2016. In order to increase our sales, one of our primary goals is to increase comparable restaurant sales. Comparable restaurant sales represent the change in period-over-period sales for restaurants beginning in their 13th full calendar month of operation. Changes in comparable restaurant sales are also a critical factor affecting our profitability, because the profit margin on incremental comparable restaurant sales is generally higher due to the sales increases being applied against a partially fixed cost base. Conversely, declines in comparable restaurant sales, as we saw throughout the majority of 2016, have a significant adverse effect on profitability due to the loss of the positive impact on profit margins associated with comparable restaurant sales increases, while we continue to incur a certain level of fixed costs.

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, which may continue to be adversely impacted by food safety incidents described below under "*— We may continue to be negatively impacted by food safety incidents associated with our restaurants…*";
- 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, as well as from grocery stores and other dining options;
- executing our strategies effectively, including our marketing and branding strategies, our initiatives to expand the use of online and other digital ordering and increase sales from our catering options, our efforts to improve the overall quality of our customers' experience and increase the speed at which our crews serve each customer, and our potential introduction of 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…*";
- 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 reductions 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.

These factors, most of which are described in more detail in additional Risk Factors below, are beyond our control to at least some degree. As a result, it is possible that we will experience future declines in comparable restaurant sales or that we otherwise will not achieve our targeted or expected comparable restaurant sales. Any future declines in comparable restaurant sales or failure to meet market expectations for comparable restaurant sales increases would likely result in a significant adverse impact on the price of our common stock. Additionally, if we fail to significantly increase comparable restaurant sales in 2017 and beyond, the price of our common stock is likely to be adversely impacted.

***We may continue to be negatively impacted by food safety incidents associated with our restaurants beginning in the fourth quarter of 2015, and further instances of food-borne or localized illnesses associated with our restaurants would result in increased negative publicity and further adverse impacts on customer perceptions of our brand, which would likely result in further declines in our 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. 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 of these incidents and related publicity, our sales and profitability were severely impacted throughout 2016. The significant amount of media coverage regarding these incidents, as well as 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 continue to negatively impact customer perceptions of our restaurants and brand, notwithstanding the high volume of food-borne illness cases from other sources across the country every day. As a result, it may take longer for our sales to recover than has been the case during past food safety incidents associated with other restaurant chains, and we may not fully recover all of our lost sales.

Because of customer perceptions in the wake of these food safety incidents, any future occurrence of food-borne illness associated with our restaurants — even incidents that may be considered minor at other 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 over the past year have enhanced our food safety procedures to ensure that our food is as safe as it can possibly 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. Additionally, 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 an 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. Furthermore, we have seen instances of unsubstantiated reports linking illnesses to Chipotle, and these reports have negatively impacted us. Even if food-borne illnesses are attributed to us erroneously or arise from conditions outside of our control, the negative impact from any such illnesses is likely to be significant.

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

We had 2,250 restaurants in operation as of December 31, 2016. We plan to increase the number of our restaurants significantly, and plan to open between 195 and 210 new restaurants in 2017. 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 top performing employees in the local market;
- difficulty managing construction and development costs of new restaurants, particularly in competitive markets or 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, tight credit, and/or higher interest rates;
- 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 ...*" and "*— Pizzeria Locale, Tasty Made and other new restaurant concepts may not contribute to our growth*";
- difficulty negotiating leases with acceptable terms;
- any shortages of construction labor or materials;
- failures or delays in securing required governmental approvals (including construction, parking and other permits);
- lack of availability of, or inability to obtain, adequate supplies of ingredients that meet our quality standards; 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...*"

Another significant challenge is locating and securing an adequate supply of suitable new restaurant sites. Competition for suitable 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, making it increasingly difficult to achieve levels of sales and profitability growth that we achieved prior to 2016.

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 generate 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, which can result in lower initial sales volumes following a restaurant's opening. It may also be difficult for us to attract a customer base if we are not able to staff our restaurants with top performing employees and successfully train them to deliver excellent customer experiences. 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. Our new restaurant sales volumes since the fourth quarter of 2015 have also been negatively impacted by the food safety issues described elsewhere in this report. The negative impact has been of greater relative magnitude to the impact we have seen on comparable restaurant sales, and as a result, new restaurant sales may have an even larger adverse impact on our results than they have in the past.

Our new restaurant development activity has also broadened recently to incorporate trade areas or types of 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 marketing and advertising strategies may not be successful, or may pose risks that could adversely impact our business.***

In an effort to reverse the downturn in our business results that began in late 2015, we significantly increased marketing and promotional expense in 2016. For the year ended December 31, 2016, our marketing and promotional expense was 5.1% of revenue, significantly higher than the 2.1% of revenue it had averaged over the preceding three years. In 2017 we expect to return marketing and promotional expense to levels closer to our historical practice as a percent of revenue, and doing so may adversely impact the number of customers visiting our restaurants. If so, we may be forced to engage in additional promotional activities, including further offers for free or discounted food, which may hamper our sales and profitability.

As part of our marketing plans for 2017, we have hired a new advertising agency and media buyer, and are also introducing a new advertising campaign and media strategies, including the possibility of television advertising, which we began testing for the first time in 2016. If our advertising campaign and new media strategies do not resonate with customers in the manner we hope, they may not result in increased sales, but would still increase our expenses. Additionally, we will also continue to 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 also plan to continue to emphasize strategies such as remote ordering and catering options in an effort to increase overall sales. These efforts 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 perceptions of our brand.

In addition, some of our marketing has 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 brand may be eroded.

### *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.*

As of December 31, 2016, 29 of our restaurants were located outside of the U.S., with 17 in Canada, 6 in the United Kingdom, 5 in France and 1 in Frankfurt, Germany. As a result of our small number of 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 make it more difficult to attract customers to our restaurants in international markets. 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, train and keep top performing employees who can successfully deliver excellent customer experiences, and labor costs may be higher in international markets due to increased regulation, higher employment taxes or social benefit costs 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. Additional costs or difficulties from any of the foregoing factors may adversely impact the operating results of our international markets. 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.

### *Pizzeria Locale, Tasty Made and other new restaurant concepts may not contribute to our growth.*

We believe that the fundamental principles on which our restaurants are based — finding better ingredients, preparing them using classic techniques in front of the customer, and serving them in an interactive format with great teams dedicated to providing an excellent dining experience — can be adapted to cuisines other than the food served at Chipotle. In order to see how our model works when we use different ingredients and a different style of food, we opened a number of ShopHouse Southeast Asian Kitchen restaurants beginning in 2011, and one Tasty Made burger restaurant in Ohio in 2016. We also have a majority ownership interest in a company operating 7 fast casual Pizzeria Locale restaurants in Denver, Colorado, Kansas City, Missouri and Cincinnati, Ohio, and we plan to assist with the further expansion of Pizzeria Locale in the future. ShopHouse was not able to achieve a level of sales and profitability that made it attractive to us for future investment, and we announced in the fourth quarter of 2016 that we are exploring strategic alternatives for the concept. We recognized a $14.5 million non-cash impairment charge, representing substantially all of the value of long-lived assets of ShopHouse during the year ended December 31, 2016. Furthermore, Pizzeria Locale and Tasty Made are new brands and have lower brand awareness, lower sales and less operating experience than most Chipotle restaurants, and may also not achieve restaurant economics that make them attractive for further investment in the future. Notwithstanding our growth plans for Tasty Made, our 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 Pizzeria Locale, Tasty Made 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 Tasty Made or Pizzeria Locale. These decisions would each limit our overall growth over the long term as well. Additionally, the exploration of strategic alternatives for ShopHouse, the expansion of Tasty Made or Pizzeria Locale, or investments in other restaurant concepts each might distract our management, which could have an adverse impact on our core Chipotle business.

***Our failure to manage our restaurant 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, and managing our growth effectively will require us to continue to enhance these systems, procedures and controls, as well as 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 restaurant growth imposes on management, crew and existing infrastructure, and changes to our operating structure may result in increased costs or inefficiencies that we cannot currently anticipate. We have also historically placed a great deal of importance on restaurant cultures, which we believe needs to be redirected to focus more on effective training of our team to deliver excellent customer experiences. As we grow our number of restaurants, additional shifts in our cultural or operational focus may harm morale in our restaurants or prove distracting to our restaurant employees, which could adversely impact our business and operating results.

## Risks Related to Operating in the Restaurant Industry

*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. In recent years, competition has increased significantly from restaurant formats like ours that serve higher quality food, quickly at a reasonable price. We believe that this competition has made it more challenging to maintain or increase the frequency of customer visits. Additionally, although we continue to believe that Chipotle can differentiate itself with our mission to ensure that better food is accessible to everyone, competitors have increasingly made claims related to the quality of their ingredients, or distinctions between artificial and natural flavors, colors and preservatives. The increasing use of these claims in the marketplace, even if the substantive basis for some of them may be questionable, may lessen our differentiation.

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, Tasty Made 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 or so-called “better burger” restaurants. 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 and other competing products, or by price competition more generally.

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 and prices, 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.

***Our business could be adversely affected by increased labor costs or difficulties in finding and retaining top-performing employees.***

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 such as competition for workers and labor market pressures, increased minimum wage requirements, paid sick leave or vacation accrual mandates, or changes in our restaurant staffing structure have, and may continue to adversely impact our operating costs. 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…*"), could also adversely impact our labor costs. 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 continue to be a challenge in 2017 due to continued volatility and uncertainty in our sales trends.

In addition, our success in delivering excellent customer experiences depends substantially on the energy and skills of our employees and our ability to hire, motivate and keep qualified employees, especially general managers and crew members. Turnover among our restaurant crews and managers has been frequent, and we aim to reduce turnover in an effort to keep top performing employees and better realize our investment in training new employees. Failure to do so will adversely impact our operating results by increasing training costs and making it more difficult to deliver outstanding customer experiences. Our failure to find and keep enough high-caliber employees could also delay planned restaurant openings, which would slow our growth.

We use 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 successfully identify all applicants who are ineligible for employment. Although we use E-Verify and 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. Unauthorized workers may subject us to fines or penalties, and if we are found to be employing unauthorized workers, 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 resulted in significant legal costs. 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, 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. Furthermore, immigration laws have been an area of considerable political focus in recent years, 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. Further changes in immigration or work authorization laws may increase our obligations for compliance and oversight, which could subject us to additional costs and potential liability and make our hiring process more cumbersome, or reduce the availability of potential employees.

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. In 2016, a significant spike in avocado prices from September to November adversely impacted our food costs for the third and fourth quarters, and there could be similar or greater pricing pressure on key ingredients during 2017. Costs have increased from the enhanced food safety procedures described elsewhere in this report. Additionally, a substantial volume of produce items are grown in Mexico and other countries, and some of our meats and restaurant supplies are sourced from outside the U.S. as well. Any new or increased import duties, tariffs or taxes, or other changes in U.S. trade or tax policy, could result in higher food and supply costs that would adversely impact our financial results.

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.

***Food scares 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, listeria 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 due to the types of food scares described above, 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.

***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 described elsewhere in this report, we have implemented a number of enhancements to our food safety protocols to ensure that our food is as safe as it can be. Many of our enhanced procedures, which go beyond the industry-standard food safety practices that we were previously following, increase the cost of some ingredients or the amount of labor required to prepare and serve our food. If we aren't able to sufficiently 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 fourth quarter of 2015, the increased costs from these changes are likely to 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.

***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 microbiological 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 to us than at other restaurants.

For many of our food ingredients and other supplies we do not have 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 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. Conversely, substantial increases in rents associated with lease renewals would increase our occupancy costs, reducing our restaurant margins.

## 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 quality and 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 we try to make our food as fresh as we can. We do, however, face challenges associated with pursuing Food With Integrity philosophy. 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 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 our Food With Integrity philosophy, which could make us less popular among our customers and cause sales to decline. Our commitment to the Food With Integrity philosophy 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, as customers who believe we failed to uphold our own standards may decline to return to our restaurants as frequently or at all.

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, and recent changes in our management team may adversely impact us.***

Our Chairman and Chief Executive Officer Steve Ells 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, who served as our co-Chief Executive Officer for over 11 years before announcing his retirement in December 2016, 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. Additionally, Mark Crumpacker, our Chief Marketing and Development Officer, who has played a role in our marketing and branding efforts for many years and who has been an executive officer since joining us full time in January 2009, has been instrumental in formulating strategies to help us regain customers following the sales declines we experienced throughout 2016. Curt Garner, who joined us as Chief Information Officer in November 2015, has had a key role in developing and executing our digital/mobile ordering platforms and strategy, and we believe these and other technology innovations will become increasingly important in helping us return to sales and profitability growth. 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. Monty Moran's resignation from the co-Chief Executive Officer position in connection with his planned retirement was the first change in our executive officer team in a number of years. If our company culture or operations were to deteriorate following this or other changes 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.

## 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 incur legal costs to defend, and we could suffer losses from, 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, changes to eligibility for overtime pay, 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...*" 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 work authorization requirements, and 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 and retaining top-performing employees,*" 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 and retaining top-performing employees,*" the office of the U.S. Attorney for the District of Columbia and the U.S. Securities and Exchange Commission investigated us for possible criminal and civil securities law violations relating to our employee work authorization compliance and related disclosures and statements as well. Any potential future investigations in this area may 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 our employees and those 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 on May 5, 2017. 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, and could subject us to liability if we make errors in calculating or disclosing the required information.

*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 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 our security and information systems or those 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.

***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.

***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.

### *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 2016 approximately 70% 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. The liabilities resulting from any of the foregoing would likely be far greater than the losses we recorded in connection with the data breach incident in 2004.

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.

#### *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 or improper employee practices, 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, employment practices liability 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 relatively short and our significant growth during most of our operating history 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. It is also possible that losses covered under one or more of our insurance policies may exceed the applicable policy limits, which would subject us to unexpected additional liabilities in an amount that could be significant enough to have a material adverse effect on our financial position.

***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 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;
- increases in marketing or promotional expenses as we introduce new marketing programs and strategies, or increased spending on existing marketing programs in an effort to drive sales;
- our ability to raise menu prices without adversely impacting customer traffic, particularly if food and labor costs were 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 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 continue to be a greater concern during 2017, as the expectations of analysts and investors of a recovery in our business results may be higher than any level of recovery that we do actually achieve.

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, including during 2016. 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.

## ITEM 2. PROPERTIES

As of December 31, 2016, there were 2,250 restaurants operated by Chipotle and our consolidated subsidiaries, 2,227 of which were Chipotle restaurants. The table below sets forth the locations (by state or country) of all restaurants in operation.

| | |
|---|---|
| Alabama | 12 |
| Arizona | 78 |
| Arkansas | 6 |
| California | 384 |
| Colorado | 76 |
| Connecticut | 22 |
| Delaware | 6 |
| District of Columbia | 23 |
| Florida | 135 |
| Georgia | 44 |
| Idaho | 7 |
| Illinois | 130 |
| Indiana | 34 |
| Iowa | 11 |
| Kansas | 26 |
| Kentucky | 18 |
| Louisiana | 8 |
| Maine | 5 |
| Maryland | 82 |
| Massachusetts | 50 |
| Michigan | 31 |
| Minnesota | 61 |
| Missouri | 37 |
| Montana | 3 |
| Nebraska | 9 |
| Nevada | 25 |
| New Hampshire | 6 |
| New Jersey | 50 |
| New Mexico | 4 |
| New York | 127 |
| North Carolina | 45 |
| North Dakota | 1 |
| Ohio | 168 |
| Oklahoma | 11 |
| Oregon | 26 |
| Pennsylvania | 73 |
| Rhode Island | 7 |
| South Carolina | 20 |
| Tennessee | 18 |
| Texas | 181 |
| Utah | 10 |
| Vermont | 1 |
| Virginia | 89 |
| Washington | 35 |
| West Virginia | 5 |
| Wisconsin | 19 |
| Wyoming | 2 |
| Canada | 17 |
| France | 5 |
| Germany | 1 |
| United Kingdom | 6 |
| Total | 2,250 |

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, 2016, we had 1,396 end-cap locations, 370 free-standing units, 346 in-line locations, and 138 other locations. The average restaurant size is about 2,500 square feet and seats about 57 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 |
|---|---|---|
| 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 |

| | High | Low |
|---|---|---|
| 2016 | | |
| First Quarter | $ 542.50 | $ 399.14 |
| Second Quarter | $ 473.17 | $384.77 |
| Third Quarter | $ 444.13 | $ 386.10 |
| Fourth Quarter | $440.00 | $352.96 |

As of January 26, 2017, there were approximately 1,233 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, we do not know the actual number of unique shareholders represented by these record holders.

## Purchases of Equity Securities by the Issuer

The table below reflects shares of common stock we repurchased during the fourth quarter of 2016.

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2) |
|---|---|---|---|---|
| October | 49,969 | $ 403.18 | 49,969 | $149,060,523 |
| *Purchased 10/1 through 10/31* | | | | |
| November | 57,640 | $ 391.17 | 57,640 | $ 126,513,735 |
| *Purchased 11/1 through 11/30* | | | | |
| December | 62,268 | $384.56 | 62,268 | $102,567,759 |
| *Purchased 12/1 through 12/31* | | | | |
| Total | 169,877 | $392.28 | 169,877 | $102,567,759 |

(1) Shares were repurchased pursuant to a repurchase program announced on May 11, 2016.

(2) This column includes $100 million in authorized repurchases announced on October 25, 2016, but does not include an additional $100 million in authorized repurchases announced on January 10, 2017. Our authorized repurchase programs have no expiration date, but may be modified, suspended, or discontinued at any time.

## Dividend Policy

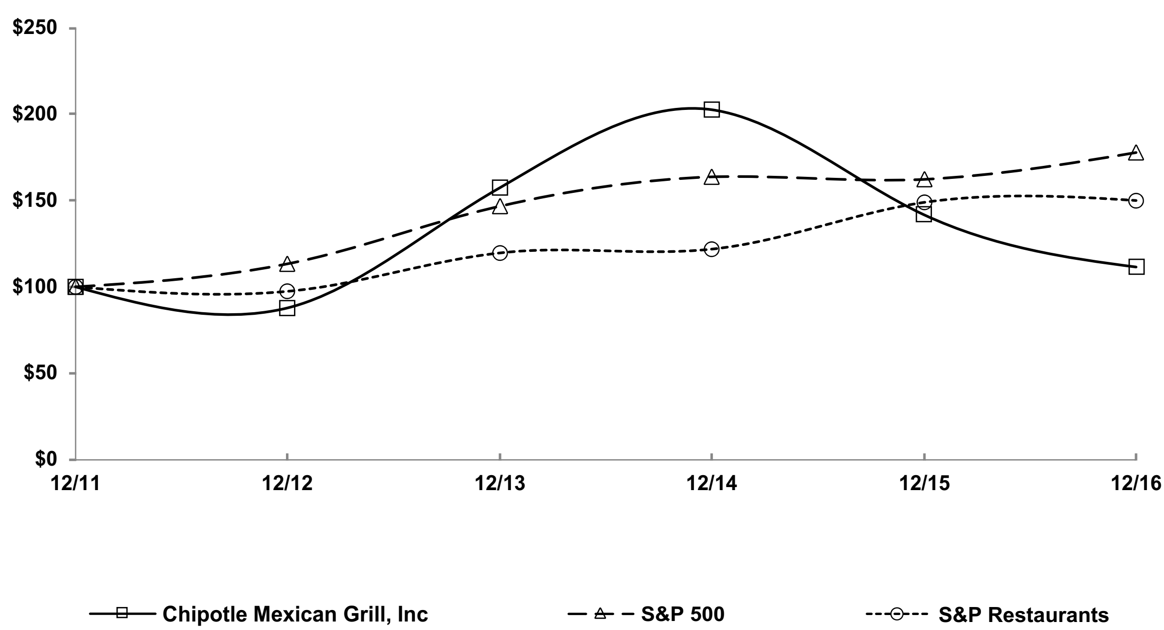
We are not required to pay any dividends and have not declared or paid any cash dividends on our common stock. We intend to continue to retain earnings for use in the operation and expansion of our business and to repurchase shares of common stock (subject to market conditions), and therefore do not 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, 2011 through December 31, 2016 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, 2011. 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 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Source data: S&P Capital IQ

## 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, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| **Statement of Income:** | | | | | |
| Revenue | $3,904,384 | $ 4,501,223 | $ 4,108,269 | $3,214,591 | $ 2,731,224 |
| Food, beverage and packaging costs | 1,365,580 | 1,503,835 | 1,420,994 | 1,073,514 | 891,003 |
| Labor costs | 1,105,001 | 1,045,726 | 904,407 | 739,800 | 641,836 |
| Occupancy costs | 293,636 | 262,412 | 230,868 | 199,107 | 171,435 |
| Other operating costs | 641,953 | 514,963 | 434,244 | 347,401 | 286,610 |
| General and administrative expenses | 276,240 | 250,214 | 273,897 | 203,733 | 183,409 |
| Depreciation and amortization | 146,368 | 130,368 | 110,474 | 96,054 | 84,130 |
| Pre-opening costs | 17,162 | 16,922 | 15,609 | 15,511 | 11,909 |
| Loss on disposal of assets | 23,877 | 13,194 | 6,976 | 6,751 | 5,027 |
| Total operating expenses | 3,869,817 | 3,737,634 | 3,397,469 | 2,681,871 | 2,275,359 |
| Income from operations | 34,567 | 763,589 | 710,800 | 532,720 | 455,865 |
| Interest and other income (expense), net | 4,172 | 6,278 | 3,503 | 1,751 | 1,820 |
| Income before income taxes | 38,739 | 769,867 | 714,303 | 534,471 | 457,685 |
| Provision for income taxes | (15,801) | (294,265) | (268,929) | (207,033) | (179,685) |
| Net income | $ 22,938 | $ 475,602 | $ 445,374 | $ 327,438 | $ 278,000 |
| Earnings per share | | | | | |
| Basic | $ 0.78 | $ 15.30 | $ 14.35 | $ 10.58 | $ 8.82 |
| Diluted | $ 0.77 | $ 15.10 | $ 14.13 | $ 10.47 | $ 8.75 |
| Weighted average common shares outstanding | | | | | |
| Basic | 29,265 | 31,092 | 31,038 | 30,957 | 31,513 |
| Diluted | 29,770 | 31,494 | 31,512 | 31,281 | 31,783 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| **Balance Sheet Data:** | | | | | |
| Total current assets | $ 522,374 | $ 814,647 | $ 859,511 | $ 653,095 | $ 537,745 |
| Total assets | $2,026,103 | $2,725,066 | $ 2,527,317 | $1,996,068 | $1,659,805 |
| Total current liabilities | $ 281,793 | $ 279,942 | $ 245,710 | $ 199,228 | $ 186,852 |
| Total liabilities | $ 623,610 | $ 597,092 | $ 514,948 | $ 457,780 | $ 413,879 |
| Total shareholders' equity | $1,402,493 | $ 2,127,974 | $2,012,369 | $1,538,288 | $1,245,926 |

# 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

Steve Ells, our founder, Chairman and CEO, started Chipotle with the idea that food served fast did not have to be a typical fast food experience. Today, Chipotle continues to offer a focused menu of burritos, tacos, burrito bowls, and salads made from fresh, high-quality raw ingredients, prepared using classic cooking methods and served in an interactive style allowing people to get what they want. Chipotle seeks out extraordinary ingredients that are not only fresh, but that are raised responsibly, with respect for the animals, land, and people who produce them. Chipotle prepares its food using whole, unprocessed ingredients and without the use of added colors, flavors or other additives typically found in fast food. Chipotle opened with a single restaurant in Denver in 1993 and as of December 31, 2016, operated 2,250 restaurants.

Our focus during 2017 is to return to sales and profitability growth and restore our restaurant economic model. To do so, we have a renewed focus on ensuring that every guest in every one of our restaurants is provided with an excellent customer experience.

## 2016 Highlights and Trends

*Operating Results*. Our sales and profitability were adversely impacted throughout 2016 as a result of a number of food-borne illness incidents associated with Chipotle restaurants in as many as 15 states, which were widely reported during the fourth quarter of 2015 and the first quarter of 2016. Our comparable restaurant sales trends have improved sequentially for each quarter during 2016 as shown below:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 | Full year |
| Comparable restaurant sales declines | (29.7%) | (23.6%) | (21.9%) | (4.8%) | (20.4%) |
| Impact of deferred revenue on comparable restaurant sales | – | – | (0.8%) | 0.5% | (0.1%) |

Our sales comparisons were lapping an easier compare in the fourth quarter due to lower sales levels in November and December 2015 as a result of the food-borne illness incidents. Comparable restaurant sales decreases were driven primarily by a 14.4% decrease in the number of transactions for the full year 2016, and to a lesser extent by decreases in average check. Comparable restaurant sales represent the change in period-over-period sales for restaurants beginning in their 13th full calendar month of operation. Average restaurant sales were $1.868 million as of December 31, 2016, decreasing from $2.424 million as of December 31, 2015. We define average restaurant sales as the average trailing 12-month sales for restaurants in operation for at least 12 full calendar months.

During the full year 2016, our restaurant operating costs (food, beverage and packaging; labor; occupancy; and other operating costs) as a percent of revenue increased 13.3% as compared to the full year 2015. About 6.2% of the increase was attributable to sales deleveraging, while incremental marketing and promotional spend aimed at regaining our customers, combined with additional labor to support the sales promotions, contributed about 3.1% to the increase. Additionally, as part of our response to the food-borne illness incidents, we have implemented enhanced food safety procedures in our supply chain and restaurants that have increased our food costs as a percentage of revenue. We anticipate that the ongoing impact of the enhanced food safety procedures on our food costs as a percentage of revenue will be approximately 1% compared to pre-crisis levels.

*Restaurant Development*. As of December 31, 2016, we had 2,250 restaurants in operation, including 2,198 Chipotle restaurants throughout the United States, with an additional 29 international Chipotle restaurants and 23 non-Chipotle restaurants that were consolidated into our financial results. We opened 240 restaurants in 2016, net of relocations and closures, which contributed $156.2 million to revenue. In the fourth quarter of 2016, we announced that we were exploring strategic alternatives for our 15 ShopHouse Southeast Asian Kitchen restaurants, and as a result, we recognized a non-cash impairment charge of $14.5 million.

*Stock Repurchases.* In accordance with stock repurchases authorized by our Board of Directors, we purchased shares of our common stock during 2016 with an aggregate total repurchase price of $813.9 million. As of December 31, 2016, $102.6 million was available for stock repurchases under the authorizations announced on May 11, 2016 and October 25, 2016. On January 10, 2017, we also announced authorizations by our Board of Directors of up to an additional $100 million in common stock repurchases. 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.

*Management and Governance Enhancements*. In the fourth quarter of 2016, we announced that our Board of Directors named Steve Ells as our sole chief executive officer, and that Monty Moran, formerly our co-Chief Executive Officer, had stepped down from his officer and board positions and will retire effective June 9, 2017. On December 19, 2016, we also announced the appointment of four new members to our Board of Directors, two of whom were nominated by Pershing Square Capital Management, L.P., which, together with its affiliates, we believe to be our largest shareholder.

**2017 Outlook**

*Sales.* We are targeting comparable restaurant sales increases in the high single digits for the full year 2017 as comparisons become easier in the first half of 2017, and based on our plans to attract more customers with a variety of marketing activities and improvements to our digital ordering platforms, and by improving the quality of the customer experience we provide in our restaurants.

*Restaurant Operating Costs.* We expect to reduce restaurant level operating costs as a percent of revenue for the full year 2017. Our expectation is based in part on the increased sales we are anticipating and the resulting leverage in fixed operating costs, but we are forecasting additional improvements as well. We expect food, beverage and packaging costs to decrease as a percent of revenue due to relief in avocado prices and more efficient food management. We also believe that other operating expenses will decline compared to 2016 as we reduce marketing and promotional spend as a percent of revenue from the elevated levels of 2016, although we still plan for these expenses in 2017 to be above historical levels.

*Other Expense Items and Restaurant Development Plans.* We expect that general and administrative expenses will increase in 2017 due to higher non-cash stock-based compensation expense and higher bonuses, although underlying general and administrative expenses for the year should remain relatively consistent with 2016. The expected increase in stock based compensation is primarily a result of lower expense in 2016 due to an expense reversal for performance-based stock awards that did not vest, as well as higher expense in 2017 due to a planned retention award for non-executive employees and broadening the group of non-executive employees eligible for awards. We expect to realize cost efficiencies in the development of our restaurants in 2017 by simplifying our restaurant design, and choosing real estate sites, such as end-caps, that can more easily and cost-efficiently be converted into Chipotle restaurants. We intend to open between 195 and 210 restaurants for the full year 2017. Most of our 2017 restaurant openings are planned in markets that are proven or already have a Chipotle presence established.

*Tax Rates.* We expect the 2017 full year effective tax rate to be between 39.0% and 39.5%. However, as discussed in Note 1. "Description of Business and Summary of Significant Accounting Policies," included in Item 8. "Financial Statements and Supplementary Data" the adoption of ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718)" will subject our tax rate to quarterly volatility from the effect of stock award exercise and vesting activities.

## Restaurant Openings, Relocations and Closures

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Beginning of period | 2,010 | 1,783 | 1,595 |
| Openings | 243 | 229 | 192 |
| Relocations/closures | (3) | (2) | (4) |
| **Total restaurants at end of period** | 2,250 | 2,010 | 1,783 |

## Results of Operations

Our results of operations as a percentage of revenue and period-over-period variances are discussed in the following section.

### *Revenue*

| | Year ended December 31, | | | % increase/ (decrease) 2016 over 2015 | % increase/ (decrease) 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Revenue | $3,904.4 | $4,501.2 | $4,108.3 | (13.3%) | 9.6% |
| Average restaurant sales | $ 1.868 | $ 2.424 | $ 2.472 | (22.9%) | (1.9%) |
| Comparable restaurant sales | (20.4%) | 0.2% | 16.8% | | |
| Number of restaurants as of the end of the period | 2,250 | 2,010 | 1,783 | 11.9% | 12.7% |
| Number of restaurants opened in the period, net of relocations/closures | 240 | 227 | 188 | | |

In 2016, the decrease in revenue was attributable to a decline in comparable restaurant sales, partially offset by new restaurant openings. Comparable restaurant sales decreased $914.7 million while revenue from restaurants not yet in the comparable restaurant base contributed $323.9 million, of which $156.2 million was attributable to restaurants opened in 2016.

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 2015.

### *Food, Beverage and Packaging Costs*

| | Year ended December 31, | | | % decrease 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Food, beverage and packaging | $1,365.6 | $1,503.8 | $1,421.0 | (9.2%) | 5.8% |
| As a percentage of revenue | 35.0% | 33.4% | 34.6% | | |

Food, beverage and packaging costs increased as a percentage of revenue in 2016 primarily due to increased waste and costs related to new food safety procedures as well as higher avocado prices, partially offset by relief in beef prices. In dollar terms, food, beverage and packaging costs decreased in 2016 due to lower sales.

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.

### *Labor Costs*

| | Year ended December 31, | | | % increase 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Labor costs | $1,105.0 | $1,045.7 | $904.4 | 5.7% | 15.6% |
| As a percentage of revenue | 28.3% | 23.2% | 22.0% | | |

Labor costs as a percentage of revenue increased in 2016 due primarily to sales deleveraging and wage inflation, partially offset by labor efficiencies resulting from fewer managers and crew in each of our restaurants. Although we incurred additional costs to staff our restaurants for sales promotions during 2016, those incremental costs were offset by the improvement from 2015 when we incurred scheduling inefficiencies as a result of reporting challenges from a system change in early 2015. Labor costs increased in dollar terms for the year ended December 31, 2016 due to staffing needs for new restaurants.

Labor costs as a percentage of revenue increased in 2015 compared to full year 2014 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.

### *Occupancy Costs*

| | Year ended December 31, | | | % increase 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Occupancy costs | $293.6 | $262.4 | $230.9 | 11.9% | 13.7% |
| As a percentage of revenue | 7.5% | 5.8% | 5.6% | | |

Occupancy costs as a percentage of revenue increased in 2016 primarily due to lower average restaurant sales on a partially fixed-cost base. Occupancy costs increased in dollar terms for the year ended December 31, 2016, primarily due to costs associated with new restaurants.

In 2015, occupancy costs increased as a percentage of revenue primarily due to higher average rents for new locations.

### *Other Operating Costs*

| | Year ended December 31, | | | % increase 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Other operating costs | $642.0 | $515.0 | $434.2 | 24.7% | 18.6% |
| As a percentage of revenue | 16.4% | 11.4% | 10.6% | | |

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 as a percentage of revenue in 2016 due primarily to higher marketing and promotional expense as well as sales deleveraging. We increased our marketing and promotional spend in an effort to regain customers, which contributed $98.2 million to the increase.

Other operating costs increased as a percentage of revenue 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.

### *General and Administrative Expenses*

| | Year ended December 31, | | | % increase 2016 over 2015 | % decrease 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| General and administrative expense | $276.2 | $250.2 | $273.9 | 10.4% | (8.6%) |
| As a percentage of revenue | 7.1% | 5.6% | 6.7% | | |

The increase in general and administrative expenses in dollar terms for 2016 primarily resulted from increased legal expense, higher payroll costs as we grew, and expenses associated with our biennial All Managers' Conference held during 2016, partially offset by lower bonus expense and travel costs.

The decrease in general and administrative expenses in dollar terms in 2015 primarily resulted from decreased non-cash stock-based compensation expense, lower bonus expense, and decreased expense associated with our biennial All Managers' Conference held during 2014, partially offset by higher payroll costs as we grew. Stock-based compensation expense decreased $39.4 million 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.

### *Depreciation and Amortization*

| | Year ended December 31, | | | % increase 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Depreciation and amortization | $146.4 | $130.4 | $110.5 | 12.3% | 18.0% |
| As a percentage of revenue | 3.7% | 2.9% | 2.7% | | |

Depreciation and amortization increased as a percentage of revenue in 2016 due to sales deleveraging. The increase in dollar terms was due primarily to depreciation and amortization costs associated with new restaurants.

In 2015, depreciation and amortization increased as a percentage of revenue due to reinvestment costs for our restaurants as they age.

### *Loss on Disposal of Assets*

| | Year ended December 31, | | | % increase 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | | |
| | (dollars in millions) | | | | |
| Loss on disposal and impairment of assets | $23.9 | $13.2 | $7.0 | 81.0% | 89.1% |
| As a percentage of revenue | 0.6% | 0.3% | 0.2% | | |

Loss on disposal and impairment of assets increased in 2016 primarily due to a non-cash impairment charge of $14.5 million to write-down substantially all of the value of the long-lived assets of our ShopHouse restaurants.

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 well as restaurant relocations.

*Income Tax Provision*

| | Year ended December 31, 2016 | 2015 | 2014 | % decrease 2016 over 2015 | % increase 2015 over 2014 |
|---|---|---|---|---|---|
| | (dollars in millions) | | | | |
| Provision for income taxes | $ 15.8 | $294.3 | $268.9 | (94.6%) | 9.4% |
| Effective tax rate | 40.8% | 38.2% | 37.6% | | |

The 2016 effective tax rate was higher due to a higher state tax rate, not qualifying for the federal research and development tax credit in 2016, and non-deductible items on overall lower pre-tax operating income. The 2015 effective tax rate was higher than 2014 due primarily to 2014 benefiting from filing the 2013 tax returns, which included a non-recurring change in the estimate of usable employer credits.

## 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, 2016. 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 and for each quarter in 2016 include the impact of the food-borne illness incidents described elsewhere in this report.

| | 2016 Quarters Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $834.5 | $998.4 | $1,037.0 | $1,034.6 |
| Operating income (loss) | $ (46.6) | $ 40.9 | $ 9.7 | $ 30.6 |
| Net income (loss) | $ (26.4) | $ 25.6 | $ 7.8 | $ 16.0 |
| Number of restaurants opened in the quarter, net of relocations/closures | 56 | 58 | 54 | 72 |
| Comparable restaurant sales increase (decrease) | (29.7%) | (23.6%) | (21.9%) | (4.8%) |

| | 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 the quarter, net of relocations/closures | 49 | 48 | 53 | 79 |
| Comparable restaurant sales increase (decrease) | 10.4% | 4.3% | 2.6% | (14.6%) |

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 beginning in the fourth quarter of 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 days 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, anticipated 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. As of December 31, 2016, we had a cash and short-term investment balance of $417.7 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 for general corporate purposes. As of December 31, 2016, there was $102.6 million remaining available under repurchase authorizations previously approved by our Board of Directors. On January 10, 2017 we announced authorizations by our Board of Directors of up to an additional $100 million in common stock repurchases. We also have a long term investments balance of $125.1 million, which consists of U.S. treasury notes with maturities of up to 15 months. 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 2016 were $258.8 million, and we expect to incur capital expenditures of about $224 million in 2017, of which about $170 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, and other corporate expenses. Our expected reduction in capital expenditures is due to fewer planned restaurant openings and lower average investment costs per restaurant in 2017. In 2016, we spent on average about $880,000 in development and construction costs per restaurant, or about $790,000 net of landlord reimbursements of $90,000. For new restaurants to be opened in 2017, we anticipate average development costs will decrease due to cost savings initiatives.

## Contractual Obligations

Our contractual obligations as of December 31, 2016 were as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Total | 1 year | 2-3 years | 4-5 years | After 5 years |
| | | | (in thousands) | | |
| Operating leases | $3,682,979 | $ 264,911 | $ 537,995 | $ 521,132 | $ 2,358,941 |
| Deemed landlord financing | $ 3,895 | $ 423 | $ 846 | $ 885 | $ 1,741 |
| Other contractual obligations[1] | $ 301,623 | $ 232,014 | $ 69,609 | $ – | $ – |
| Total contractual cash obligations | $3,988,497 | $497,348 | $608,450 | $522,017 | $2,360,682 |

(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, 2016 and 2015, we had no off-balance sheet arrangements or obligations.

## Inflation

The primary areas of our operations affected by inflation are food, labor, healthcare costs, fuel, utility costs, materials used in the construction of our restaurants, and insurance. Although a significant majority 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. 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. "Description of Business and Summary of Significant Accounting Policies" and Note 6. "Stock Based Compensation" 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 that of our critical accounting estimates, the following involve a higher degree of judgement and subjectivity:

### *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 that involve a high degree of subjectivity. If we had arrived at different assumptions for revenue growth or net income 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 per incident, and for property which generally has a $1.5 million per incident 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 economic conditions, and is closely monitored and adjusted when warranted by changing circumstances. Our history of claims experience is relatively short and our significant growth during most of our operating history could affect the accuracy of estimates based on historical experience. If a greater amount of claims occurs compared to what we have 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. 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, 2016 were $49.4 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 estimate the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of December 31, 2016. 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, our packaging materials, as well as utilities to run our restaurants 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 24 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, 2016, we had $500.5 million in investments and interest-bearing cash accounts, including insurance-related restricted trust accounts classified in other assets, and $37.6 million in accounts with an earnings credit we classify as interest income, which combined earned a weighted average interest rate of 0.71%.

### 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 not material at this date.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## 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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 6, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 6, 2017

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

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 87,880 | $ 248,005 |
| Accounts receivable, net of allowance for doubtful accounts of $259 and $1,176 as of December 31, 2016 and 2015, respectively | 40,451 | 38,283 |
| Inventory | 15,019 | 15,043 |
| Prepaid expenses and other current assets | 44,080 | 39,965 |
| Income tax receivable | 5,108 | 58,152 |
| Investments | 329,836 | 415,199 |
| Total current assets | 522,374 | 814,647 |
| Leasehold improvements, property and equipment, net | 1,303,558 | 1,217,220 |
| Long term investments | 125,055 | 622,939 |
| Other assets | 53,177 | 48,321 |
| Goodwill | 21,939 | 21,939 |
| Total assets | $ 2,026,103 | $2,725,066 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 78,363 | $ 85,709 |
| Accrued payroll and benefits | 76,301 | 64,958 |
| Accrued liabilities | 127,129 | 129,275 |
| Total current liabilities | 281,793 | 279,942 |
| Deferred rent | 288,927 | 251,962 |
| Deferred income tax liability | 18,944 | 32,305 |
| Other liabilities | 33,946 | 32,883 |
| Total liabilities | 623,610 | 597,092 |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value, 600,000 shares authorized, no shares issued as of December 31, 2016 and 2015, respectively | – | – |
| Common stock $0.01 par value, 230,000 shares authorized, and 35,833 and 35,790 shares issued as of December 31, 2016 and 2015, respectively | 358 | 358 |
| Additional paid-in capital | 1,238,875 | 1,172,628 |
| Treasury stock, at cost, 7,019 and 5,206 common shares at December 31, 2016 and 2015, respectively | (2,049,389) | (1,234,612) |
| Accumulated other comprehensive income (loss) | (8,162) | (8,273) |
| Retained earnings | 2,220,811 | 2,197,873 |
| Total shareholders' equity | 1,402,493 | 2,127,974 |
| Total liabilities and shareholders' equity | $ 2,026,103 | $2,725,066 |

See accompanying notes to consolidated financial statements.

## CHIPOTLE MEXICAN GRILL, INC.

## CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

**(in thousands, except per share data)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Revenue | $3,904,384 | $ 4,501,223 | $ 4,108,269 |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | | |
| Food, beverage and packaging | 1,365,580 | 1,503,835 | 1,420,994 |
| Labor | 1,105,001 | 1,045,726 | 904,407 |
| Occupancy | 293,636 | 262,412 | 230,868 |
| Other operating costs | 641,953 | 514,963 | 434,244 |
| General and administrative expenses | 276,240 | 250,214 | 273,897 |
| Depreciation and amortization | 146,368 | 130,368 | 110,474 |
| Pre-opening costs | 17,162 | 16,922 | 15,609 |
| Loss on disposal and impairment of assets | 23,877 | 13,194 | 6,976 |
| Total operating expenses | 3,869,817 | 3,737,634 | 3,397,469 |
| Income from operations | 34,567 | 763,589 | 710,800 |
| Interest and other income, net | 4,172 | 6,278 | 3,503 |
| Income before income taxes | 38,739 | 769,867 | 714,303 |
| Provision for income taxes | (15,801) | (294,265) | (268,929) |
| Net income | $ 22,938 | $ 475,602 | $ 445,374 |
| Other comprehensive income (loss), net of income taxes: | | | |
| Foreign currency translation adjustments | (1,291) | (6,322) | (2,049) |
| Unrealized gain (loss) on investments, net of income taxes of $(849), $946, and $0 | 1,402 | (1,522) | – |
| Other comprehensive income (loss), net of income taxes | 111 | (7,844) | (2,049) |
| Comprehensive income | $ 23,049 | $ 467,758 | $ 443,325 |
| Earnings per share: | | | |
| Basic | $ 0.78 | $ 15.30 | $ 14.35 |
| Diluted | $ 0.77 | $ 15.10 | $ 14.13 |
| Weighted average common shares outstanding: | | | |
| Basic | 29,265 | 31,092 | 31,038 |
| Diluted | 29,770 | 31,494 | 31,512 |

See accompanying notes to consolidated financial statements.

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

| | Common Stock | | | Treasury Stock | | | Accumulated Other Comprehensive Income (Loss) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | Shares | Amount | Retained Earnings | Available-for- Sale Securities | Foreign Currency Translation | Total |
| 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 | | | | | | | (1,522) | (6,322) | (7,844) |
| Balance, December 31, 2015 | 35,790 | $358 | $ 1,172,628 | 5,206 | $ (1,234,612) | $2,197,873 | $(1,522) | (6,751) | $ 2,127,974 |
| Stock-based compensation | | | 65,112 | | | | | | 65,112 |
| Stock plan transactions and other | 43 | – | (185) | | | | | | (185) |
| Excess tax benefit on stock-based compensation | | | 1,320 | | | | | | 1,320 |
| Acquisition of treasury stock | | | | 1,813 | (814,777) | | | | (814,777) |
| Net income | | | | | | 22,938 | | | 22,938 |
| Other comprehensive income (loss), net of income tax | | | | | | | 1,402 | (1,291) | 111 |
| Balance, December 31, 2016 | 35,833 | $358 | $1,238,875 | 7,019 | $(2,049,389) | $ 2,220,811 | $ (120) | $(8,042) | $1,402,493 |

See accompanying notes to consolidated financial statements.

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Operating activities** | | | |
| Net income | $ 22,938 | $ 475,602 | $ 445,374 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 146,368 | 130,368 | 110,474 |
| Deferred income tax (benefit) provision | (14,207) | 11,666 | (20,671) |
| Loss on disposal and impairment of assets | 23,877 | 13,194 | 6,976 |
| Bad debt allowance | (262) | (23) | 9 |
| Stock-based compensation expense | 64,166 | 57,911 | 96,440 |
| Excess tax benefit on stock-based compensation | (1,320) | (74,442) | (21,667) |
| Other | (604) | 582 | 104 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,923) | (3,504) | (10,966) |
| Inventory | (91) | 262 | (2,307) |
| Prepaid expenses and other current assets | (4,259) | (5,259) | (658) |
| Other assets | (4,855) | (5,619) | 1,071 |
| Accounts payable | (6,734) | 19,525 | 2,168 |
| Accrued liabilities | 33,491 | (7,440) | 35,019 |
| Income tax payable/receivable | 54,340 | 32,756 | 8,831 |
| Deferred rent | 37,030 | 32,911 | 27,025 |
| Other long-term liabilities | 1,287 | 4,826 | 4,845 |
| Net cash provided by operating activities | 349,242 | 683,316 | 682,067 |
| **Investing activities** | | | |
| Purchases of leasehold improvements, property and equipment | (258,842) | (257,418) | (252,590) |
| Purchases of investments | – | (559,372) | (521,004) |
| Maturities of investments | 45,000 | 352,650 | 254,750 |
| Proceeds from sale of investments | 540,648 | – | – |
| Net cash provided by (used in) investing activities | 326,806 | (464,140) | (518,844) |
| **Financing activities** | | | |
| Acquisition of treasury stock | (837,655) | (460,675) | (88,338) |
| Excess tax benefit on stock-based compensation | 1,320 | 74,442 | 21,667 |
| Stock plan transactions and other financing activities | 52 | (207) | (66) |
| Net cash used in financing activities | (836,283) | (386,440) | (66,737) |
| Effect of exchange rate changes on cash and cash equivalents | 110 | (4,196) | (224) |
| Net change in cash and cash equivalents | (160,125) | (171,460) | 96,262 |
| Cash and cash equivalents at beginning of year | 248,005 | 419,465 | 323,203 |
| Cash and cash equivalents at end of year | $ 87,880 | $ 248,005 | $ 419,465 |
| **Supplemental disclosures of cash flow information** | | | |
| Income taxes paid | $ 23,862 | $ 248,547 | $ 280,687 |
| Increase (decrease) in purchases of leasehold improvements, property, and equipment accrued in accounts payable and accrued liabilities | $ (1,781) | $ (2,870) | $ 9,424 |
| Increase (decrease) in acquisition of treasury stock accrued in accrued liabilities | $ (22,878) | $ 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 restaurants that serve a focused menu of burritos, tacos, burrito bowls and salads, made using fresh, high-quality ingredients. As of December 31, 2016, the Company operated 2,198 Chipotle restaurants throughout the United States as well as 29 international Chipotle restaurants and 23 non-Chipotle restaurants. The Company transitioned the management of its operations from nine to eleven regions during 2016 and aggregates 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*

The Company recognizes revenue, net of discounts and incentives, when payment is tendered at the point of sale. The Company recognizes a liability for offers of free food by estimating the cost to satisfy the offer based on company–specific historical redemption patterns for similar promotions. These costs are recognized in other operating costs in the consolidated statement of income and comprehensive income and in accrued liabilities in the consolidated balance sheet. The Company reports revenue net of sales-related taxes collected from customers and remitted to governmental taxing authorities.

During the year ended December 31, 2016, the Company introduced a limited-time frequency program that awarded free food or merchandise to customers based on frequency of monthly visits. The Company deferred revenue reflecting the portion of original sales allocated to the rewards that were earned by program participants and not redeemed at the end of the year, and recorded a corresponding liability in accrued liabilities on its consolidated balance sheet. The portion of revenue allocated to the rewards was based on the estimated value of the award earned and takes into consideration company-specific historical redemption patterns for similar promotions. Rewards expire according to the loyalty awards terms and conditions. The Company recognizes revenue when awards are redeemed or expire.

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, 2016, 2015 and 2014 was $3,624, $4,226 and $3,146, 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, vendor rebates, receivables arising from the normal course of business, and payroll-related tax receivables. 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 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 net realizable value. 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 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 $8,076, $9,554 and $7,756 for the years ended December 31, 2016, 2015 and 2014, 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 any related gain or loss is reflected in loss on disposal and impairment 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, 2016, 2015 and 2014.

### *Other Assets*

Other assets consist primarily of restricted cash assets of $28,490 and $22,572 as of December 31, 2016 and 2015, 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, 2016, 2015 and 2014, an aggregate impairment charge of $17,394, $6,675 and $0, respectively, was recognized in loss on disposal and impairment of assets in the consolidated statement of income and comprehensive income.

Impairment charges recognized during the year ended December 31, 2016 resulted primarily from the Company's determination that its ShopHouse Southeast Asian Kitchen restaurants were impaired and the recognition of a non-cash impairment charge of $14,505 ($8,014 net of tax), representing substantially all of the value of long-lived assets of ShopHouse. The decision to impair the assets was based on an analysis of each restaurant's past and present operating performance, including a significant change from comparable restaurant sales increases to decreases, and projected future cash flows expected to be generated by the restaurant assets. The Company has decided not to invest further in developing and growing the ShopHouse brand and is pursuing strategic alternatives. 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. The fair value of restaurants, including ShopHouse, was determined using level 3 inputs (unobservable inputs) based on a discounted cash flows method.

### *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 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, 2016 and 2015, $35,550 and $28,391, respectively, of the estimated liability was included in accrued payroll and benefits and $13,881 and $11,898, 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 $102,969, $69,257 and $57,290 for the years ended December 31, 2016, 2015 and 2014, 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 statement of income and comprehensive income. 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.

### *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 and Adoption of Accounting Pronouncements*

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, "Statement of Cash Flows (Topic 230)", which provides guidance on the classification of restricted cash to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2017 using a retrospective adoption method and early adoption is permitted. For the years ended December 31, 2016, 2015 and 2014, $28,490, $22,572 and $19,889, respectively, of restricted cash would have been included in cash and cash equivalents and changes in the balance excluded from net cash provided by operating activities in the consolidated statement of cash flows if this new guidance had been adopted as of the respective dates.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718)." The pronouncement was issued to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2016. The guidance will be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update. Upon adoption, any future excess tax benefits or deficiencies will be recorded to the provision for income taxes in the consolidated statement of income, instead of additional paid-in capital in the consolidated balance sheet. For the years ended December 31, 2016, 2015 and 2014, $1,320, $74,442 and $21,667, respectively, of excess tax benefits were recorded to additional paid-in capital that would have been recorded as a reduction to the provision for income taxes if this new guidance had been adopted as of the respective dates. Additionally, excess tax benefits will be classified as operating activities in the consolidated statement of cash flow instead of in financing activities as required under the current guidance. The Company has not selected a transition method, and except as described above, does not expect the provisions of ASU 2016-09 to have an impact on the Company's consolidated financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The pronouncement requires the recognition of a liability for lease obligations and a corresponding right-of-use asset on the balance sheet and disclosure of key information about leasing arrangements. This pronouncement is effective for reporting periods beginning after December 15, 2018 using a modified retrospective adoption method. The Company's adoption of ASU No. 2016-02 will have a significant impact on its consolidated balance sheet as it will record material assets and obligations for current operating leases. The Company is evaluating the impact that adoption will have on its consolidated statement of income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," as amended by multiple standards updates. 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.

The Company reviewed all other recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact to the consolidated financial statements. Additionally, the adoption of accounting pronouncements during 2016 did not have an impact 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, | |
|---|---|---|
| | 2016 | 2015 |
| Land | $ 12,943 | $ 13,052 |
| Leasehold improvements and buildings | 1,572,606 | 1,419,418 |
| Furniture and fixtures | 157,541 | 142,825 |
| Equipment | 405,937 | 362,800 |
| Leasehold improvements, property and equipment | 2,149,027 | 1,938,095 |
| Accumulated depreciation | (845,469) | (720,875) |
| Leasehold improvements, property and equipment, net | $1,303,558 | $ 1,217,220 |

Accrued payroll and benefits were as follows:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Worker's compensation liability | $33,038 | $26,408 |
| Accrued payroll | 22,338 | 13,780 |
| Other accrued payroll and benefits | 20,925 | 24,770 |
| Accrued payroll and benefits | $ 76,301 | $64,958 |

Accrued liabilities were as follows:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Gift card liability | $59,438 | $ 51,055 |
| Transaction tax payable | 20,435 | 15,634 |
| Treasury stock liability | 2,300 | 25,178 |
| Other accrued expenses | 44,956 | 37,408 |
| Accrued liabilities | $127,129 | $129,275 |

## 3. Investments

As of December 31, 2016 and 2015, the Company's investments consisted of U.S. treasury notes with maturities up to approximately two years and were classified as available-for-sale. Fair market value of U.S. treasury notes is measured on a recurring basis based on Level 1 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 following is a summary of available-for-sale securities:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Amortized cost | $455,109 | $1,040,850 |
| Unrealized gains (losses) | (218) | (2,712) |
| Fair market value | $454,891 | $ 1,038,138 |

The following is a summary of unrealized gains (losses) of available-for-sale securities recorded in other comprehensive income (loss):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Unrealized gains (losses) on available-for-sale securities | $2,251 | $(2,468) | $ – |
| Unrealized gains (losses) on available-for-sale securities, net of tax | $1,402 | $ (1,522) | $ – |

The following is a summary of available-for-sale securities activity recorded in interest and other income (expense) in the consolidated statement of income and comprehensive income:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Realized gains (losses) from sale of available-for-sale securities | $547 | $ – | $ – |
| Other-than-temporary impairment | $ – | $244 | $ – |

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, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Current tax: | | | |
| U.S. Federal | $ 20,765 | $244,470 | $ 248,219 |
| U.S. State | 8,687 | 37,957 | 41,225 |
| Foreign | 556 | 172 | 156 |
| | 30,008 | 282,599 | 289,600 |
| Deferred tax: | | | |
| U.S. Federal | (11,596) | 11,000 | (13,890) |
| U.S. State | (2,546) | 699 | (6,740) |
| Foreign | (2,470) | (2,288) | (3,075) |
| | (16,612) | 9,411 | (23,705) |
| Valuation allowance | 2,405 | 2,255 | 3,034 |
| Provision for income taxes | $ 15,801 | $294,265 | $268,929 |

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 $1,320, $74,442, and $21,667 during the years ended December 31, 2016, 2015, and 2014, respectively.

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| State income tax, net of related federal income tax benefit | 13.3 | 3.6 | 3.7 |
| Federal credits | (10.1) | (0.4) | (0.5) |
| Enhanced deduction for food donation | (2.4) | (0.2) | (0.1) |
| Valuation allowance | 6.0 | 0.3 | 0.4 |
| Other | 6.2 | – | 0.1 |
| Return to provision and other discrete items | (7.2) | (0.1) | (1.0) |
| Effective income tax rate | 40.8% | 38.2% | 37.6% |

The 2016 effective tax rate was higher due to a higher state tax rate, not qualifying for the federal research and development tax credit in 2016, and non-deductible items on overall lower pre-tax operating income. Additionally, 2014 included a benefit from filing the 2013 tax returns, which included a non-recurring change in the estimate of usable employer credits resulting in a lower effective tax rate than 2015.

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, | |
|---|---|---|
| | 2016 | 2015 |
| Deferred income tax liability: | | |
| Leasehold improvements, property and equipment | $204,640 | $192,125 |
| Goodwill and other assets | 1,856 | 1,696 |
| Prepaid assets and other | 6,012 | 8,297 |
| Total deferred income tax liability | 212,508 | 202,118 |
| Deferred income tax asset: | | |
| Deferred rent | 63,159 | 57,716 |
| Gift card liability | 5,563 | 3,171 |
| Capitalized transaction costs | 500 | 502 |
| Stock-based compensation and other employee benefits | 101,628 | 83,058 |
| Foreign net operating loss carry-forwards | 9,580 | 11,407 |
| State credits | 4,595 | 4,783 |
| Allowances, reserves and other | 19,359 | 18,577 |
| Valuation allowance | (10,820) | (9,401) |
| Total deferred income tax asset | 193,564 | 169,813 |
| Net deferred income tax liability | $ 18,944 | $ 32,305 |

The unrecognized tax benefits are as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Beginning of year | $3,776 | $ 1,342 | $ – |
| Increase resulting from prior year tax position | – | 402 | – |
| Increase resulting from current year tax position | 435 | 2,032 | 1,342 |
| End of year | $ 4,211 | $3,776 | $1,342 |

During the year ending December 31, 2016, $430 of interest was accrued for uncertain tax positions. 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 2013. 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 2013. As of December 31, 2016, the Company had cumulative gross foreign net operating losses of $36,464, which have no expiration date.

## 5. Shareholders' Equity

Through December 31, 2016, the Company announced authorizations by its Board of Directors of the expenditure of an aggregate of up to $2,100,000 to repurchase shares of the Company's common stock. On January 10, 2017, the Company announced that its Board of Directors authorized the expenditure of up to an additional $100,000 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 1,811 during the year ended December 31, 2016, 839 during the year ended December 31, 2015 and 154 during the year ended December 31, 2014, for a total cost of $813,881, $485,841 and $87,996 during 2016, 2015 and 2014, respectively. As of December 31, 2016, $102,568 was available to be repurchased under the authorized programs. 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 2016, 2015, and 2014, 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.

## 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 that were also approved by shareholders. 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, count as two shares used, whereas each share underlying a stock appreciation right or stock option 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 2,165 represent shares that were authorized for issuance but not issued or subject to outstanding awards at December 31, 2016. 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 make grants (subject to certain legal and regulatory restrictions), 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 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. Some stock-based compensation awards are made to employees involved in the Company's new restaurant development activities, and expense for these awards is recognized as capitalized development and 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, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Stock-based compensation expense | $ 65,112 | $59,465 | $ 97,618 |
| Stock-based compensation expense, net of tax | 35,974 | 36,666 | 60,084 |
| Stock-based compensation expense recognized as capitalized development | 946 | 1,554 | 1,178 |

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

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | 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 | 1,694 | $490.70 | 2,087 | $395.46 | 1,690 | $ 312.44 |
| Granted | 460 | $ 457.77 | 379 | $ 659.12 | 764 | $545.66 |
| Exercised | (124) | $ 315.87 | (716) | $ 297.25 | (315) | $ 310.32 |
| Forfeited or cancelled | (113) | $ 559.25 | (56) | $ 554.73 | (52) | $ 419.74 |
| Outstanding, end of year | 1,917 | $490.06 | 1,694 | $490.70 | 2,087 | $395.46 |

| | Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Years of Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2016 | 1,917 | $490.06 | 4.4 | $22,040 |
| Vested and expected to vest as of December 31, 2016 | 1,851 | $ 489.18 | 4.3 | $22,040 |
| Exercisable as of December 31, 2016 | 846 | $ 422.32 | 3.3 | $22,040 |

During the year ended December 31, 2014 the Company granted 220 SOSARs that include performance conditions. No SOSARs that include performance conditions were granted during 2015 or 2016. As of December 31, 2016, 388 SOSARs that include performance conditions were outstanding, of which 278 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, 2016, 2015 and 2014 was $15,946, $260,466 and $88,245. Unearned compensation as of December 31, 2016 was $34,862 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:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Risk-free interest rate | 1.0% | 1.1% | 0.8% |
| Expected life (years) | 3.5 | 3.4 | 3.4 |
| Expected dividend yield | 0.0% | 0.0% | 0.0% |
| Volatility | 32.2% | 30.8% | 33.3% |
| Weighted-average Black-Scholes fair value per share at date of grant | $117.48 | $156.32 | $136.18 |

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

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

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | 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 | 116 | $ 511.88 | 70 | $525.60 | 71 | $520.27 |
| Granted | 90 | $509.05 | 47 | $785.32 | 2 | $495.92 |
| Vested | (7) | $605.83 | (1) | $ 413.07 | (2) | $ 284.11 |
| Forfeited or cancelled | (74) | $529.54 | – | $534.55 | (1) | $ 410.55 |
| Outstanding, end of year | 125 | $606.24 | 116 | $ 511.88 | 70 | $525.60 |

At December 31, 2016, 116 of the outstanding non-vested stock awards were subject to performance and/or market conditions, in addition to service vesting conditions. During the first quarter of 2016, the Company awarded 73 shares, net of cancellations, that are subject to both service and market vesting conditions. The quantity of shares that will vest may range from 0% to 400% of a targeted number of shares, and will be determined based on the price of the Company's common stock reaching certain targets for a consecutive number of days during the three year period starting on the grant date. If the minimum defined stock price target is not met, then no shares will vest.

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 the Company'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, 2013, the Company granted 66 stock awards that were subject to both service and performance vesting conditions ("the 2013 stock awards"). The performance conditions for the grant required achievement of specific targets for cumulative cash flow from operations during a three year period. Targets were not met and none of the stock awards vested.

During the year ended December 31, 2016, the Company adjusted its estimate of 2015 stock awards expected to vest as well as reduced its expense for the 2013 stock awards that did not vest. The impact of these changes resulted in a cumulative reduction to expense of $6,031 ($3,332 net of tax as well as $0.11 to basic and diluted earnings per share) in the year ended December 31, 2016.

The Company's measurement of the grant date fair value of the 2015 and 2016 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:

| | 2016 | 2015 |
|---|---|---|
| Risk-free interest rate | 0.9% | 1.0% |
| Expected life (years) | 3.0 | 2.9 |
| Expected dividend yield | 0.0% | 0.0% |
| Volatility | 31.4% | 33.7% |

The assumptions are based on the same factors as those described for SOSARs, except that the expected life is based on the contractual performance period for stock awards.

Unearned compensation as of December 31, 2016 was $39,758 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 1.7 years. The fair value of shares earned as of the vesting date during the year ended December 31, 2016, 2015, and 2014 was $2,787, $634, and $783, 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, 2016, 2015, and 2014, Company matching contributions totaled approximately $5,939, $4,995 and $3,881, respectively. In addition to the traditional pre-tax deferral options, during 2016 the 401(k) Plan began offering a Roth after-tax deferral option.

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, 2016 and 2015 were $17,843 and $18,331, 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, 2016, 2015, and 2014, the Company made deferred compensation matches of $225, $617, and $536 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, consistent with the investment choices selected by participants in their Deferred Plan accounts, 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 $17,843 and $18,331 as of December 31, 2016 and 2015, 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, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Unrealized gains (losses) on investments held in rabbi trust | $586 | $(571) | $184 |

The Company offers an employee stock purchase plan ("ESPP"). Employees become eligible to participate 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 247 represent shares that were authorized for issuance but not issued at December 31, 2016. For each of the years ended December 31, 2016, 2015, and 2014, the number of shares issued under the ESPP were less than 1.

## 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 that include a fixed base rent plus an additional percentage of the restaurant's sales in excess of stipulated amounts. 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.

Contractually required future minimum cash lease payments under existing operating leases as of December 31, 2016 are as follows:

| | |
|---|---|
| 2017 | $ 264,911 |
| 2018 | 268,862 |
| 2019 | 269,133 |
| 2020 | 263,732 |
| 2021 | 257,400 |
| Thereafter | 2,358,941 |
| Total minimum lease payments | $3,682,979 |

Minimum lease payments have not been reduced by minimum sublease rentals of $5,342 due in the future under non-cancelable subleases.

Rental expense consists of the following:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Minimum rentals | $255,955 | $227,602 | $200,575 |
| Contingent rentals | $ 1,811 | $ 4,542 | $ 4,616 |
| Sublease rental income | $ (2,074) | $ (1,879) | $ (1,838) |

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 $2,854 and $3,060 as of December 31, 2016, and 2015, 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, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Stock awards subject to performance conditions | 263 | 266 | 385 |
| Stock awards that were antidilutive | 1,316 | 289 | 232 |
| Total stock awards excluded from diluted earnings per share | 1,579 | 555 | 617 |

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net income | $22,938 | $475,602 | $445,374 |
| Shares: | | | |
| Weighted average number of common shares outstanding | 29,265 | 31,092 | 31,038 |
| Dilutive stock awards | 505 | 402 | 474 |
| Diluted weighted average number of common shares outstanding | 29,770 | 31,494 | 31,512 |
| Basic earnings per share | $ 0.78 | $ 15.30 | $ 14.35 |
| Diluted earnings per share | $ 0.77 | $ 15.10 | $ 14.13 |

## 10. Commitments and Contingencies

### *Purchase Obligations*

The Company enters into various purchase obligations in the ordinary course of business, generally of a short term nature. Those that are binding primarily relate to commitments for food purchases and supplies, amounts owed under contractor and subcontractor agreements, orders submitted for equipment for restaurants under construction, and marketing initiatives and corporate sponsorships.

### *Litigation*

*Receipt of Grand Jury Subpoenas*

On January 28, 2016, 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 requires the production of documents and information related to company-wide food safety matters dating back to January 1, 2013. The Company intends to continue 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.

*Shareholder Derivative Actions*

On March 21, 2016, Jessica Oldfather filed a shareholder derivative action in the Court of Chancery of the State of Delaware alleging that the Company's Board of Directors and officers breached their fiduciary duties in connection with allegedly excessive compensation awarded from 2011 to 2015 under the Company's stock incentive plan. On December 8, 2016, the Court of Chancery dismissed the complaint, with prejudice.

On April 6, 2016, Uri Skorski filed a shareholder derivative action in Colorado state court in Denver, Colorado, making largely the same allegations as the Oldfather complaint and also alleging that the Company's Board of Directors and officers breached their fiduciary duties in connection with the Company's alleged failure to disclose material information about the Company's food safety policies and procedures. On April 14, 2016, Mark Arnold and Zachary Arata filed a shareholder derivative action in Colorado state court in Denver, Colorado, making largely the same allegations as the Skorski complaint. On May 26, 2016, the court issued an order consolidating the Skorski and Arnold/Arata actions into a single case. On August 8, 2016, Sean Gubricky filed a shareholder derivative action the U.S. District Court for the District of Colorado, alleging that the Company's Board of Directors and certain officers failed to institute proper food safety controls and policies, issued materially false and misleading statements in violation of federal securities laws, and otherwise breached their fiduciary duties to the Company. On September 1, 2016, Ross Weintraub filed a shareholder derivative action in Colorado state court in Denver, Colorado, making largely the same allegations as the Gubricky complaint. On December 27, 2016, Cyrus Lashkari filed a shareholder derivative action the U.S. District Court for the District of Colorado, making largely the same allegations as the foregoing shareholder derivative complaints. Each of these actions purports to state a claim for damages on behalf of the Company, and is based on statements in the Company's SEC filings and related public disclosures, as well as media reports and Company records. The Company intends to defend these cases vigorously, but it is not possible at this time to reasonably estimate the outcome of or any potential liability from these cases.

*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. In May 2012, the U.S. Securities and Exchange Commission notified the Company that it was 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 had broadened to include a parallel criminal and civil investigation of the Company's compliance with federal securities laws. During the fourth quarter of 2016, the Company entered into an agreement with the office of the U.S. Attorney for the District of Columbia to resolve the DHS and ICE investigations.

*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:

| | 2016 | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $834,459 | $998,383 | $1,036,982 | $1,034,560 |
| Operating income (loss) | $ (46,604) | $ 40,895 | $ 9,726 | $ 30,550 |
| Net income (loss) | $ (26,432) | $ 25,596 | $ 7,799 | $ 15,975 |
| Basic earnings (loss) per share | $ (0.88) | $ 0.88 | $ 0.27 | $ 0.55 |
| Diluted earnings (loss) per share | $ (0.88) | $ 0.87 | $ 0.27 | $ 0.55 |

| | 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 |

## 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 Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### Evaluation of Disclosure Controls and Procedures

As of December 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer 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

There were no changes during the fiscal quarter ended December 31, 2016 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, 2016, 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, 2016, 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, 2016. This report follows.

## 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, 2016, 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, 2016, 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, 2016 and 2015, 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, 2016 and our report dated February 6, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 6, 2017

## ITEM 9B. OTHER INFORMATION

On February 3, 2017, we entered into a Registration Rights Agreement with Pershing Square Capital Management, L.P., and certain affiliates thereof. Pursuant to the Registration Rights Agreement, the Pershing Square shareholders may make up to four requests that we file a registration statement to register the sale of shares of our common stock that the Pershing Square shareholders beneficially own, subject to the limitations and conditions provided in the Registration Rights Agreement.

The Registration Rights Agreement also provides that we will file and keep effective, subject to certain limitations, a shelf registration statement covering shares of our common stock beneficially owned by the Pershing Square shareholders, and also provides certain piggyback registration rights to the Pershing Square shareholders.

The registration rights provided in the agreement terminate as to any Pershing Square shareholder upon the earliest of (i) the date on which such shares are disposed of pursuant to an effective registration statement, (ii) the date on which such securities are sold pursuant to Rule 144, and (iii) such shareholder ceasing to beneficially own at least 5% of our outstanding common stock, provided such shareholder no longer has a representative serving on our Board of Directors, and is permitted to sell shares of common stock beneficially owned by such shareholder under Rule 144(b)(1) of the Securities Act.

The Registration Rights Agreement also contains customary indemnification provisions.

The foregoing description of the Registration Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Registration Rights Agreement which is filed as Exhibit 10.11 to this Annual Report on Form 10-K and is incorporated by reference herein.

# PART III

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

Incorporated by reference from the definitive proxy statement for our 2017 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2016.

## ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the definitive proxy statement for our 2017 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2016.

## 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, 2016. All options/SOSARs reflected are options to purchase common stock.

| | (a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights(1) | (b) Weighted-Average Exercise Price of Outstanding Options and Rights(1) | (c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))(2) |
|---|---|---|---|
| Equity Compensation Plans Approved by Security Holders | 2,042,317 | $490.06 | 2,412,105 |
| Equity Compensation Plans Not Approved by Security Holders | None | N/A | None |
| Total | 2,042,317 | $490.06 | 2,412,105 |

(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 2,165,105 shares remaining available under the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan, and 247,000 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, 2016, 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 2017 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2016.

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

Incorporated by reference from the definitive proxy statement for our 2017 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2016.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from the definitive proxy statement for our 2017 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2016.

## 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.

## ITEM 16. FORM 10-K SUMMARY

None.

# SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHIPOTLE MEXICAN GRILL, INC.

By: /s/ JOHN R. HARTUNG
**Name:** **John R. Hartung**
**Title:** **Chief Financial Officer**

Date: February 6, 2017

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steve Ells and John Hartung, and each of them, his or her true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Date | Title |
| --- | --- | --- |
| /s/ STEVE ELLS<br>**Steve Ells** | February 6, 2017 | Chief Executive Officer and Chairman of the Board of Directors<br>(principal executive officer) |
| /s/ JOHN R. HARTUNG<br>**John R. Hartung** | February 6, 2017 | Chief Financial Officer<br>(principal financial and accounting officer) |
| /s/ ALBERT S. BALDOCCHI<br>**Albert S. Baldocchi** | February 6, 2017 | Director |
| /s/ JOHN S. CHARLESWORTH<br>**John S. Charlesworth** | February 6, 2017 | Director |
| /s/ NEIL W. FLANZRAICH<br>**Neil W. Flanzraich** | February 6, 2017 | Director |
| /s/ PATRICK J. FLYNN<br>**Patrick J. Flynn** | February 6, 2017 | Director |
| /s/ DARLENE J. FRIEDMAN<br>**Darlene J. Friedman** | February 6, 2017 | Director |
| /s/ STEPHEN GILLETT<br>**Stephen Gillett** | February 6, 2017 | Director |
| /s/ ROBIN S. HICKENLOOPER<br>**Robin S. Hickenlooper** | February 6, 2017 | Director |
| /s/ KIMBAL MUSK<br>**Kimbal Musk** | February 6, 2017 | Director |
| /s/ MATTHEW PAULL<br>**Matthew Paull** | February 6, 2017 | Director |

# 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 of Chipotle Mexican Grill, Inc. | 10-Q | 001-32731 | October 26, 2016 | 3.1 | |
| 3.2 | Chipotle Mexican Grill, Inc. Amended and Restated Bylaws | 8-K | 001-32731 | October 6, 2016 | 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. 2006 Stock Incentive Plan | 10-K | 001-32731 | February 17, 2011 | 10.2 | |
| 10.1.1† | Form of 2009 Stock Appreciation Rights Agreement | 10-K | 001-32731 | February 19, 2009 | 10.2.7 | |
| 10.1.2† | Form of 2011 Stock Appreciation Rights Agreement | 10-K | 001-32731 | February 17, 2011 | 10.2.10 | |
| 10.1.3† | Form of 2011 Performance-Based Stock Appreciation Rights Agreement | 10-K | 001-32731 | February 17, 2011 | 10.2.11 | |
| 10.2† | Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan | 10-Q | 001-32731 | October 26, 2016 | 10.1 | |
| 10.2.1† | Form of Board Restricted Stock Units Agreement | 10-Q | 001-32731 | July 22, 2014 | 10.1 | |
| 10.2.2† | Form of Stock Appreciation Rights Agreement | 10-Q | 001-32731 | April 20, 2012 | 10.1 | |
| 10.2.3† | Form of Performance-Based Stock Appreciation Rights Agreement | 10-Q | 001-32731 | April 20, 2012 | 10.2 | |
| 10.2.4† | Form of 2014 Stock Appreciation Rights Agreement | – | – | – | – | X |
| 10.2.5† | Form of 2014 Performance-Based Stock Appreciation Rights Agreement | – | – | – | – | X |
| 10.2.6† | Form of 2015 Performance Share Agreement | 10-Q | 001-32731 | April 22, 2015 | 10.2 | |
| 10.2.7† | Form of 2016 Stock Appreciation Rights Agreement | 10-Q | 001-32731 | April 27, 2016 | 10.1 | |
| 10.2.8† | Form of 2016 Performance Share Agreement | 10-Q | 001-32731 | April 27, 2016 | 10.2 | |
| 10.3 | 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 | |
| 10.4† | Board Pay Policies | 10-Q | 001-32731 | April 22, 2015 | 10.1 | |
| 10.5† | Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan | 10-K | 001-32731 | February 23, 2007 | 10.11 | |
| 10.5.1† | Amendment No. 1 to Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan | 10-Q | 001-32731 | August 1, 2007 | 10.1 | |
| 10.5.2† | Amendment No. 2 to Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan | 10-Q | 001-32731 | October 31, 2007 | 10.1 | |

| Exhibit Number | Exhibit Description | Description of Exhibit Incorporated Herein by Reference | | | | |
|---|---|---|---|---|---|---|
| | | Form | File No. | Filing Date | Exhibit Number | Filed Herewith |
| 10.6† | Form of Director and Officer Indemnification Agreement | 8-K | 001-32731 | March 21, 2007 | 10.1 | |
| 10.7† | Chipotle Mexican Grill, Inc. Employee Stock Purchase Plan | 10-K | 001-32731 | February 10, 2012 | 10.11 | |
| 10.8† | Chipotle Mexican Grill, Inc. 2014 Cash Incentive Plan | 10-Q | 001-32731 | July 19, 2013 | 10.1 | |
| 10.9† | Retirement and Non-Competition Agreement dated December 9, 2016 between Chipotle Mexican Grill, Inc. and Montgomery F. Moran | 8-K | 001-32731 | December 12, 2016 | 10.1 | |
| 10.10 | Investor Agreement dated December 14, 2016 between Chipotle Mexican Grill, Inc. and Pershing Square Capital Management, L.P. | 8-K | 001-32731 | December 19, 2016 | 10.1 | |
| 10.11 | Registration Rights Agreement dated February 3, 2017, between Chipotle Mexican Grill, Inc. and Pershing Square Capital Management, L.P. | – | – | – | – | X |
| 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 Chief Executive Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | – | – | – | – | X |
| 31.2 | 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 Chief Executive Officer 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, 2016 and December 31, 2015, (ii) Consolidated Statement of Income and Comprehensive Income for the years ended December 31, 2016, 2015 and 2014, (iii) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014; and (v) Notes to the Consolidated Financial Statements | – | – | – | – | X |

†- denotes management contract or compensatory plan or arrangement.

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

March 30, 2017

DEAR SHAREHOLDER:

You are cordially invited to attend the annual meeting of shareholders of Chipotle Mexican Grill, Inc., which will be held on May 25, 2017 at 8:00 a.m. local time at The Westin Denver Downtown, 1672 Lawrence 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 Chief Executive Officer

CHIPOTLE
MEXICAN GRILL

# NOTICE OF MEETING

The 2017 annual meeting of shareholders of Chipotle Mexican Grill, Inc. will be held on May 25, 2017 at 8:00 a.m. local time at The Westin Denver Downtown, 1672 Lawrence Street, Denver, Colorado.

Shareholders will consider and take action on the following matters:

1. Election of the eight directors named in this proxy statement, Al Baldocchi, Paul Cappuccio, Steve Ells, Neil Flanzraich, Robin Hickenlooper, Kimbal Musk, Ali Namvar and Matthew Paull, 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. An advisory vote on the frequency of future say-on-pay votes;
4. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2017;
5. A shareholder proposal, if properly presented at the meeting; and
6. 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 27, 2017. Shareholders of record at that time are entitled to vote at the meeting.

If you'd like to attend the meeting in person, you will need to obtain an admission ticket in advance. You can obtain a ticket by following the instructions on page 51.

**By order of the Board of Directors**

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

March 30, 2017

**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?" beginning on page 1 of the accompanying proxy statement.**

# Proxy Statement Summary

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

**1. Election of Directors** **(p. 6)**

| Name | Years of Service | Independent | Board Recommendation |
|---|---|---|---|
| Albert Baldocchi | 20 | Yes | For |
| Paul T. Cappuccio | 3 months | Yes | For |
| Steve Ells | 21 | No | For |
| Neil Flanzraich | 10 | Yes | For |
| Robin Hickenlooper | 3 months | Yes | For |
| Kimbal Musk | 4 | Yes | For |
| Ali Namvar | 3 months | Yes | For |
| Matthew Paull | 3 months | Yes | For |

*The recent appointments of our four newest directors were the latest step in Board succession and refreshment efforts that have been under way for a number of years.*

*Four directors, John Charlesworth, Pat Flynn, Darlene Friedman and Stephen Gillett, will not stand for reelection at the annual meeting.*

| | | |
|---|---|---|
| **2.** | **Say on Pay (p. 20)** | For |
| **3.** | **Say on Pay Frequency (p. 21)** | Annual |
| **4.** | **Ratification of Ernst & Young LLP as independent auditors (p. 22)** | For |
| **5.** | **Shareholder proposal (p. 25)** | AGAINST |

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

## PERFORMANCE

2016 was a challenging year, as we were negatively impacted throughout the year by the food-borne illness incidents associated with Chipotle restaurants beginning in the fourth quarter of 2015, and related negative publicity. As a result of these business challenges, our stock price declined considerably. We believe our management team has developed and is implementing a strategy that will position Chipotle to return to its full potential, and believe our business has begun to head in the right direction.

## COMPENSATION

In light of the continued challenges we faced during 2016, the Compensation Committee of our Board of Directors took a number of actions:

### In February 2016

- Officers did not receive any annual bonus under our Annual Incentive Plan for 2015.
- The committee determined that using 2015 year-end financials or the company's stock price at the beginning of 2016 as the basis for a relative performance measure in a performance share program could create a misalignment of shareholder returns and executive officer compensation. More specifically, the committee believed that using the same relative performance measures as were used in our 2015 performance share awards might not translate into rebuilding lost shareholder value, or be appropriately challenging, if used in 2016. Accordingly, the committee awarded performance shares to our executive officers that are solely tied to highly challenging absolute stock price performance goals over a three-year performance period.

*In response to the say-on-pay vote at the annual meeting of shareholders in 2016 and shareholder feedback during our extensive engagement with shareholders, including discussions in early 2017 with holders of approximately 40% of our outstanding common stock, we agreed with our current named executive officers on modifications to the 2016 performance share awards to (1) increase the measurement period for establishing stock price achievement from 30 days to 60 days; (2) remove the highest payout level from the original award, so that maximum payout will be limited to 3x the target award; and (3) add an award modifier so that if there is a significant decline in our stock price after achievement of the award, the award will pay out at no greater than the target level.*

### In February 2017

- For 2016, officers once again did not receive any annual bonus under our Annual Incentive Plan.
- The committee granted performance shares that again focused primarily on restoring lost shareholder value, while also adding a comparable restaurant sales growth metric to incentivize and reward sales recovery at levels that would help restore our restaurant economic model. Two-thirds of the 2017 awards is tied to highly challenging absolute stock price performance goals, and one-third is tied to achievement of strong levels of average comparable restaurant sales increases, in each case over a three-year performance period.
- Details regarding executive compensation for 2016, and the executive officer equity awards made in early 2017, can be found in the compensation disclosures beginning on page 28.

*As an additional response to the say-on-pay vote at the 2016 annual meeting, the targeted valuation of the 2017 performance shares awarded to the executive officers was reduced by between 15% and 31% as compared to 2016.*

## A COMMITMENT TO WELL-DESIGNED CORPORATE GOVERNANCE THAT ALIGNS WITH SHAREHOLDER EXPECTATIONS

For many years, Chipotle has been committed to aligning the composition of our Board and our corporate governance policies and structures with the creation of shareholder value through our unique business model, and with shareholder viewpoints on key governance-related issues. This commitment has been illustrated through a number of actions we have taken over many years, as illustrated below.

### 2016

**Dec 2016**
- Continued our Board refreshment and succession program by appointing four high-caliber new independent directors to our Board with a wide range of skills and experience; two of whom were appointed under an agreement with a large shareholder.
- Streamlined our management by eliminating our Co-CEO structure in connection with the retirement of Monty Moran.

**Oct 2016**
- Adopted a market-standard proxy access bylaw, in response to voting at the 2016 annual meeting of shareholders and shareholder engagement discussions, including with our Lead Director.

**May 2016**
- Implemented the right for shareholders to call special meetings, in response to shareholder voting on a management-sponsored proposal at the 2016 annual meeting of shareholders.
- Completed phase-out of classified Board structure begun in 2014.

### 2015

**Sep 2015**
- Implemented majority voting for director elections, in response to shareholder voting on a management-sponsored proposal that originated with shareholder engagement efforts, at the 2015 annual meeting of shareholders.

**May 2015**
- Eliminated provisions requiring supermajority voting to approve certain corporate actions, in response to shareholder voting at the 2014 annual meeting of shareholders.

**Mar 2015**
- Continued our Board refreshment and succession program by appointing a new independent director, Stephen Gillett, with significant technology experience.

### 2014

**May 2014**
- Began phase-out of classified Board structure, in response to shareholder voting at the 2013 annual meeting of shareholders.

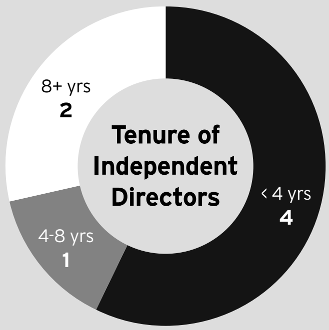
### 2013

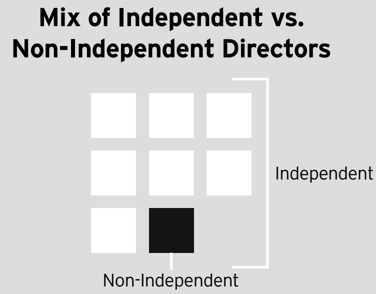
**Sep 2013**
- Continued our Board refreshment and succession program by appointing a new independent director, Kimbal Musk, to our Board with restaurant operating experience, as well as expertise in entrepreneurialism and innovation.

### 2012

**Sep 2012**
- Appointed a new independent director to our Board with executive-level restaurant company experience (this director stepped down in 2014 due to other commitments).

The graphics below represent a snapshot of the overall independence of our Board, and the results of our focus on Board refreshment, based on the makeup of our Board immediately following the upcoming annual meeting.




## SUSTAINABILITY REPORTING

Through our commitment to making better food accessible to everyone, we believe Chipotle is driving more positive change in the nation's food supply than any other restaurant company. We serve meat from animals raised in a humane way, and without the use of non-therapeutic antibiotics or added hormones. We believe we are the only national restaurant company with a significant stated commitment to serving local and organically grown produce. In 2015 we became the first national restaurant company to use only non-GMO ingredients in our food. And we use dairy products from cows raised on pasture. These are only a few of our accomplishments, and we believe the positive impacts of these moves flow throughout our supply chain and beyond.

As our many sustainability-related initiatives have advanced, so has our reporting of our accomplishments, enabling us to accumulate a considerable amount of tracking and analysis of sustainability-related metrics. Given our continued development in this area, and following several years of increasing shareholder support for sustainability-related disclosures, we believe that a logical next step in our sustainability efforts is the preparation and publication of our first-ever comprehensive sustainability report.

Accordingly, we plan to publish Chipotle's first sustainability report in the fourth quarter of 2017. We have completed the initial, foundational work for the report, and will work throughout this year with two highly-regarded outside firms with expertise in sustainability reporting and management, as well as with a group of sustainability-focused investors, to prepare and publish our report.

Look for our sustainability report in December 2017. We look forward to taking this next step, which we believe will not only provide valuable information to many of our stakeholders, but also will help us better manage sustainability-related issues.

| SUMMARY OF GOVERNANCE HIGHLIGHTS |
|---|
| Seven of the eight members who will continue to serve on our Board of Directors following the annual meeting are independent. |
| Independent directors are led by an independent Lead Director. |
| All directors are up for re-election on an annual basis. |
| Directors are elected by majority vote in uncontested elections rather than plurality. |
| Independent Board members meet in executive session at each quarterly Board meeting. |
| Board performance is reviewed in an annual self-assessment by each director, with reporting to and evaluation by the full Board. |
| Each independent director is subject to Board stock ownership requirements and prohibitions on hedging/pledging of shares owned. |
| No shareholder rights plan or "poison pill." |
| Adoption of bylaws permitting holders of at least 25% of our outstanding common stock to call special meetings of shareholders. |
| Adoption of bylaws permitting proxy access for qualifying shareholders. |
| See also page 32 for significant compensation policies and procedures we employ to motivate our employees to build shareholder value, while protecting the interests of all our shareholders. |

# Table of Contents

# Table of Contents
(continued)

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# Annual Meeting Information

## ANNUAL MEETING INFORMATION

This proxy statement contains information related to the annual meeting of shareholders of Chipotle Mexican Grill, Inc. to be held on Thursday, May 25, 2017, beginning at 8:00 a.m. at The Westin Denver Downtown, 1672 Lawrence 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 30, 2017.

### 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 27, 2017, 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 27, 2017, there were 28,683,190 shares of common stock outstanding and entitled to vote.

### What am I voting on?

You will be asked to vote on five proposals:

| | | Board Recommendation: |
|---|---|---|
| **PROPOSAL 1 -** | Election of eight directors: Al Baldocchi, Paul Cappuccio, Steve Ells, Neil Flanzraich, Robin Hickenlooper, Kimbal Musk, Ali Namvar and Matthew Paull. | FOR |
| **PROPOSAL 2 -** | An advisory vote to approve the compensation of our executive officers as disclosed in this proxy statement ("say-on-pay"). | FOR |
| **PROPOSAL 3 -** | An advisory vote on the frequency of future say-on-pay votes. | ANNUAL |
| **PROPOSAL 4 -** | Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2017. | FOR |
| **PROPOSAL 5 -** | A shareholder proposal, if properly presented at the meeting, requesting that the Board of Directors implement changes to Chipotle's governing documents to lower the threshold for shareholders to call special meetings of shareholders to an aggregate of 15% of our outstanding common stock. | AGAINST |

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

### How does the Board of Directors recommend I vote on the proposals?

The Board of Directors recommends a vote **FOR** each candidate for director, **FOR** Proposals 2 and 4, for future say-on-pay votes to be held on an **ANNUAL** basis, and **AGAINST** Proposal 5.

### 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 "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 4. **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.

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?

To attend the meeting, you must be a shareholder on the record date and obtain an admission ticket in advance by following the instructions set forth on page 51. Tickets will be available to registered and beneficial owners and to one guest accompanying each registered or beneficial owner. Requests for admission tickets will be processed in the order in which they are received and must be requested no later than May 24, 2017. Please note that seating is limited and requests for tickets will be accepted on a first-come, first-served basis. On the day of the meeting, each shareholder will be required to present valid picture identification such as a driver's license or passport with their admission ticket. Seating will begin at 7:30 a.m. and the meeting will begin at 8:00 a.m. Cameras (including cell phones with photographic capabilities), recording devices and other electronic devices will not be permitted at the meeting. You may be required to enter through a security check before being granted access to the meeting.

### 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.

### What is a "broker non-vote"?

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. See "Will my shares held in street name be voted if I do not provide voting instructions?" above for more information.

### 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 election of directors.

**Proposals 2, 4 and 5** — The say-on-pay vote and ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2017, and approval of the shareholder proposal (if properly presented at the meeting), all require the affirmative vote of a majority of the shares present and entitled to vote on the matter in order to be approved. Abstentions will have the same effect as a vote "AGAINST" these proposals; broker non-votes are not counted as entitled to vote and will have no effect on the outcome of any of these proposals.

**Proposal 3** — You may vote to have the advisory say-on-pay vote held every "one," "two" or "three" years. The alternative receiving the highest number of votes will indicate the frequency preferred by our shareholders. Abstentions and broker non-votes are not counted as votes cast and will have no effect on the outcome of this proposal.

Because the say-on-pay vote (Proposal 2), the frequency of say-on-pay votes (Proposal 3) and the vote on the shareholder proposal (Proposal 5) 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 matter of the shareholder proposal. Ratification of our appointment of independent auditors is not required and therefore the vote on Proposal 4 is also advisory only. See Proposal 4 for additional information about the effect of the voting outcome on this proposal.

### *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 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 Securities and Exchange Commission, or 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 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 27, 2017 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 1-800-690-6903, or by e-mail at sendmaterial@proxyvote.com, or by writing to Chipotle Mexican Grill, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Requests by e-mail or in writing should include the 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. 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 27, 2017 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 28,683,190 outstanding shares of common stock as of March 27, 2017. 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 27, 2017 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 |
|---|---|---|
| Beneficial holders of 5% or more of outstanding common stock | | |
| FMR LLC(1) | 3,281,840 | 11.44% |
| Pershing Square Capital Management, L.P.(2) | 2,882,463 | 10.05% |
| The Vanguard Group, Inc.(3) | 2,650,416 | 9.24% |
| BlackRock, Inc.(4) | 2,412,231 | 8.41% |
| Sands Capital Management, LLC(5) | 1,668,312 | 5.82% |
| Directors and named executive officers | | |
| Steve Ells(6)(7) | 328,052 | 1.14% |
| John Hartung(8) | 125,427 | * |
| Mark Crumpacker(9) | 35,500 | * |
| Albert Baldocchi(6)(10)(11) | 73,183 | * |
| Paul Cappuccio(12) | – | – |
| John Charlesworth(10) | 3,668 | * |
| Neil Flanzraich(10) | 3,896 | * |
| Patrick Flynn(10) | 6,578 | * |
| Darlene Friedman(6)(10)(13) | 5,129 | * |
| Stephen Gillett(14) | – | – |
| Robin Hickenlooper(12) | – | – |
| Kimbal Musk(15) | 312 | * |
| Ali Namvar(16) | – | – |
| Matthew Paull(12) | 400 | * |
| Montgomery Moran(6)(17) | 487,386 | 1.68% |
| All directors and current executive officers as a group (15 people)(16) | 582,145 | 2.01% |

* Less than one percent.

(1) Based solely on a report on Schedule 13G/A filed on February 14, 2017. 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 address of FMR LLC is 245 Summer Street, Boston, Massachusetts, 02210.

(2) Based solely on a report on Schedule 13D/A filed by Pershing Square Capital Management, L.P., PS Management GP, LLC, and William A. Ackman (collectively, "Pershing Square") on February 7, 2017. The address of Pershing Square is 888 Seventh Avenue, 42nd Floor, New York, New York, 10019.

(3) Based solely on a report on Schedule 13G/A filed on February 10, 2017. The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, Pennsylvania, 19355.

(4) Based solely on a report on Schedule 13G/A filed on January 23, 2017. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York, 10022.

(5) Based solely on a report on Schedule 13G/A filed on February 14, 2017. The address of Sands Capital Management, LLC is 1000 Wilson Blvd., Suite 3000, Arlington, Virginia, 22209.

(6) A portion of the shares beneficially owned by Mr. Ells, Mr. Baldocchi, Ms. Friedman and Mr. Moran are entitled to piggyback registration rights.

(7) Shares beneficially owned by Mr. Ells include 131,250 shares underlying vested stock appreciation rights.

(8) 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; 35 shares beneficially owned by his children; and 95,000 shares underlying vested stock appreciation rights. Mr. Hartung disclaims beneficial ownership of the shares beneficially owned by his children.

(9) Shares beneficially owned by Mr. Crumpacker include 32,500 shares underlying vested stock appreciation rights.

(10) Shares beneficially owned by Messrs. Baldocchi, Charlesworth, Flanzraich and Flynn and Ms. Friedman include 696 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.

(11) Shares beneficially owned by Mr. Baldocchi include 69,648 shares owned jointly by Mr. Baldocchi and his spouse.

(12) Shares beneficially owned by Messrs. Cappuccio and Paull and Ms. Hickenlooper exclude 16 shares underlying unvested restricted stock units.

(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) Shares beneficially owned by Mr. Gillett exclude 417 shares underlying unvested restricted stock units.

(15) Shares beneficially owned by Mr. Musk include 242 shares underlying unvested restricted stock units which will vest on May 15, 2017, and exclude 454 shares underlying unvested restricted stock units.

(16) Mr. Namvar disclaims beneficial ownership of the shares beneficially owned by Pershing Square Capital Management L.P., PS Management GP, LLC and William A. Ackman, and accordingly such shares are not reported above as beneficially owned by Mr. Namvar.

(17) Shares beneficially owned by Mr. Moran include 381,250 shares underlying vested stock appreciation rights. Mr. Moran stepped down from the position of Co-Chief Executive Officer and as a member of the Board in December 2016 in connection with his planned retirement in June 2017.

(18) See Notes (6) through (17). Shares beneficially owned exclude shares beneficially owned by Mr. Moran, who no longer serves as an executive officer.

# Election of Directors

Our Board of Directors currently has twelve members. Current directors John Charlesworth, Pat Flynn, Darlene Friedman, and Stephen Gillett are not standing for re-election at the annual meeting. Accordingly, at the annual meeting, shareholders will be asked to vote on the eight nominees named below, each of whom will be elected on an annual basis.

Al Baldocchi, Paul Cappuccio, Steve Ells, Neil Flanzraich, Robin Hickenlooper, Kimbal Musk, Ali Namvar and Matthew Paull are the nominees for election as directors to serve for a one year term expiring at the 2018 annual meeting. We sometimes refer to these nominees as a group in this proxy statement with the term "continuing directors." 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 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 any of these proposals.

**The Board of Directors recommends a vote FOR the election of Ms. Hickenlooper and Messrs. Baldocchi, Cappuccio, Ells, Flanzraich, Musk, Namvar and Paull as directors.**

## INFORMATION REGARDING THE BOARD OF DIRECTORS

### Biographical Information

The following is biographical information about each nominee, including a description of the experience, qualifications and skills that have led the Board to determine that each nominee should serve on the Board. The respective current terms of all directors expire as of the date of next year's annual meeting of shareholders or continue until their successors are elected and have qualified.

**DIRECTORS WHOSE TERMS EXPIRE AT THE 2017 ANNUAL MEETING OF SHAREHOLDERS AND WHO ARE NOMINEES FOR TERMS EXPIRING AT THE 2018 ANNUAL MEETING**

| | Background: | Qualifications: |
|---|---|---|
| **Albert S. Baldocchi**<br>**Age:** 62<br>**Director Since:** 1997 | 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. He holds a Bachelor of Science degree in chemical engineering from the University of California at Berkeley and an MBA from Stanford University. | Mr. Baldocchi's extensive involvement with restaurant companies over a period of 17 years has given him 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, Solomon Brothers and Montgomery Securities, helped him develop solid capabilities in accounting and finance as well. |

| | | |
|---|---|---|
| **Paul T. Cappuccio**<br>**Age:** 55<br>**Director Since:** 2016 | **Background:**<br>Mr. Cappuccio was appointed to the Board on December 14, 2016. Mr. Cappuccio has served as Executive Vice President and General Counsel of Time Warner since 2001. In this capacity, he oversees the worldwide management of Time Warner's legal functions, collaborating with all of its operating businesses. From 1999 to 2001, Mr. Cappuccio was Senior Vice President and General Counsel at America Online. Before joining AOL, he was a partner at the Washington, DC office of law firm Kirkland & Ellis LLP, where he specialized in telecommunications law, appellate litigation, and negotiation with government agencies. From 1991 to 1993, Mr. Cappuccio was Associate Deputy Attorney General at the United States Department of Justice. Prior to his service at the DOJ, Mr. Cappuccio served as law clerk at the United States Supreme Court for Justices Antonin Scalia and Anthony M. Kennedy, and as a law clerk to Judge Alex Kozinski of the United States Court of Appeals for the Ninth Circuit. Mr. Cappuccio earned a law degree from Harvard Law School in 1986 and a Bachelor's degree from Georgetown University in 1983, and serves on the board of directors of Central European Media Enterprises Ltd. (NasdaqGS: CETV). | **Qualifications:**<br>Mr. Cappuccio's contributions to the Board include strong experience in legal and regulatory compliance, risk management, and public company corporate governance. |
| **Steve Ells**<br>**Age:** 51<br>**Director Since:** 1996 | **Background:**<br>Mr. Ells founded Chipotle in 1993. He is Chief Executive Officer and was appointed Chairman of the Board in 2005. From 2009 through 2016 he served as Co-Chief Executive Officer and Chairman. 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. 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. | **Qualifications:**<br>Mr. Ells's visionary thinking has led Chipotle to extraordinary accomplishments, such as growing from a single restaurant to over 2,200 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. |

| Director | Background | Qualifications |
| --- | --- | --- |
| **Neil W. Flanzraich**<br>**Age:** 73<br>**Director Since:** 2007 | **Background:**<br>Mr. Flanzraich is the Executive Chairman of Cantex Pharmaceuticals, Inc. (formerly ParinGenix, Inc.), a privately-owned biotech company, where he previously served as CEO and Chairman, and additionally, he has been a private investor since February 2006. 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. He was a director of Equity One Inc. (NYSE: EQY) until it was acquired on March 1, 2017. Mr. Flanzraich was also previously a director of BELLUS Health Inc. until May 2012, and prior to that served as a director of a number of additional publicly-traded companies. Mr. Flanzraich received an A.B. from Harvard College and a J.D. from Harvard Law School. | **Qualifications:**<br>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. |
| **Robin Hickenlooper**<br>**Age:** 38<br>**Director Since:** 2016 | **Background:**<br>Ms. Hickenlooper was appointed to the Board on December 14, 2016. Ms. Hickenlooper is Senior Vice President of Corporate Development at Liberty Media Corporation and has served in senior corporate development roles at Liberty Media and its affiliates since 2010. Prior to joining Liberty Media in 2008, Ms. Hickenlooper worked at Del Monte Foods and in investment banking at Thomas Weisel Partners. Ms. Hickenlooper serves on the board of directors of FTD Companies, Inc. (Nasdaq: FTD). She earned an MBA from Kellogg School of Management at Northwestern University, and a Bachelor's degree in Public Policy from Duke University. | **Qualifications:**<br>Ms. Hickenlooper brings to the Board significant experience in marketing and new media, as well as public company corporate governance. |

| | | |
|---|---|---|
| **Kimbal Musk**<br>**Age:** 44<br>**Director Since:** 2013 | **Background:**<br>Mr. Musk is an entrepreneur and restaurateur who has founded and advised several companies and non-profits including: The Kitchen Restaurant Group, a restaurant company with restaurants in Colorado, Illinois and Tennessee; 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. He 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. | **Qualifications:**<br>Mr. Musk's 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. |
| **Ali Namvar**<br>**Age:** 47<br>**Director Since:** 2016 | **Background:**<br>Mr. Namvar was appointed to our Board on December 14, 2016. Mr. Namvar is a Partner at Pershing Square Capital Management, L.P., currently our second largest shareholder. Prior to joining Pershing Square in 2006, he held positions at Blackstone Group and Goldman Sachs Group, Inc. Mr. Namvar holds a Bachelor of Arts degree from Columbia University and an MBA from the Wharton School at the University of Pennsylvania. | **Qualifications:**<br>Mr. Namvar has significant experience with restaurant investments, and also brings to the Board a deep knowledge of finance and investor relations. |
| **Matthew H. Paull**<br>**Age:** 65<br>**Director Since:** 2016 | **Background:**<br>Mr. Paull was appointed to our Board on December 14, 2016. Mr. Paull was Senior Vice President and Chief Financial Officer of McDonald's Corp. from 2001 until he retired from that position in 2008. Prior to joining McDonald's in 1993, Mr. Paull was a Partner at Ernst & Young, LLP. Mr. Paull currently serves on the boards of directors of Air Products and Chemicals, Inc. (NYSE: APD), Canadian Pacific Railway Limited (NYSE: CP) and KapStone Paper and Packaging Corp. (NYSE: KS). Mr. Paull previously served as a member of the board of WMS Industries, Inc. until 2013, and Best Buy Co. until 2013. He also serves on the advisory board of Pershing Square Capital Management, L.P. Mr. Paull holds a Bachelor's degree and a Master's degree in Accounting from the University of Illinois. | **Qualifications:**<br>Mr. Paull brings to our Board expert knowledge in finance, accounting, and public company corporate governance. |

In addition to the specific skills and experience described above, each director has demonstrated a strong work ethic and dedication to Chipotle, including coming prepared to meetings, supporting our strategic vision while asking constructive questions and challenging management in a productive way, and otherwise providing valuable oversight of our business on behalf of our shareholders. We also believe that each director, through their personal accomplishments and in their service to Chipotle, has demonstrated high integrity, strong intellectual acumen, solid business judgment, and strategic vision.

The graphic below depicts a number of the key skills, experiences and attributes our Board believes to be important to have represented on the Board, and identifies the number of continuing directors having those skills, experiences and attributes.

## SKILLS, EXPERIENCE AND ATTRIBUTES

**LEADERSHIP**
**6/8 directors**
(CEO; LEADERSHIP OF LARGE ORGANIZATIONS; PUBLIC COMPANY BOARD SERVICE)

**RESTAURANT INDUSTRY**
**5/8 directors**
(SOURCING & SUPPLY; FOOD SAFETY; QUALITY ASSURANCE)

**HR/PEOPLE MANAGEMENT**
**2/8 directors**
(RECRUITING; TALENT DEVELOPMENT & MOTIVATION; COMPLIANCE)

**FINANCE/ACCOUNTING**
**5/8 directors**
(ACCOUNTING SYSTEMS; PUBLIC REPORTING; INTERNAL CONTROLS)

**RISK MANAGEMENT**
**3/8 directors**
(OVERSIGHT & EVALUATION)

**BRANDING/MARKETING**
**4/8 directors**
(CUSTOMER RELATIONS; BRAND INNOVATION)

**TECHNOLOGY**
**1/8 directors**
(BUSINESS EFFICIENCY; REVENUE OPPORTUNITIES; CYBERSECURITY)

**INTERNATIONAL**
**4/8 directors**
(FOREIGN JURISDICTIONS; ORGANIZATIONAL & TAX STRUCTURE)

**SUSTAINABILITY**
**2/8 directors**
(ENVIRONMENTAL, SOCIAL & GOVERNANCE ISSUES)

**GOVERNMENT RELATIONS**
**3/8 directors**
(REGULATION, INVESTIGATIONS & COMPLIANCE)

**INVESTOR RELATIONS**
**6/8 directors**
(ENGAGEMENT REGARDING STRATEGY, COMPENSATION, AND CORPORATE GOVERNANCE)

**DIVERSITY**
**1/8 directors**
(GENDER; ETHNIC/NATIONAL ORIGIN)

**REAL ESTATE**
**4/8 directors**
(SITE SELECTION; PROPERTY ADMINISTRATION)

The Board of Directors held ten meetings in 2016. Each director attended at least 75 percent of the meetings of the Board and of committees of which they were members during the time in which they served as a member of the Board in 2016. The Board has requested that each of its members attend our annual shareholder meetings absent extenuating circumstances, and all directors serving on the Board on the date of the 2016 annual meeting attended the 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 contained in the rules of the NYSE. Based on that review, in March 2017 the Board determined that none of our directors have any relationships, transactions or arrangements that would compromise their independence, except that Mr. Ells is not an independent director as a result of his employment with us as Chief Executive Officer. 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 as described below under "Certain Relationships and Related Party Transactions;" and (ii) our agreements with Pershing Square Capital Management, L.P., in which Mr. Namvar is a partner and for which Mr. Paull serves on the advisory board. Accordingly, the Board concluded that each director other than Mr. Ells 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 role 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* under the Corporate Governance link.

For information about the membership of each committee following the four pending departures from our Board, see page 13.

### *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 (including review of audit plans, budget and staffing), 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 regularly holds executive sessions with the audit partner for continued assessment of the performance, effectiveness and independence of the independent audit firm. The committee also 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 24 of this proxy statement. The committee determined that the fees paid to the independent auditor in 2016, 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. The committee has also adopted and annually reviews compliance with the company's Hiring Policy for Former Employees of Independent Auditor Firm, which further ensures that the independence of the independent audit firm is not impaired.

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 nine meetings in 2016. 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 2016. A report of the Audit Committee is found under the heading "Audit Committee Report" on page 24.

### *Compensation Committee*

The Compensation Committee oversees our executive compensation policies and programs. In accordance with its charter, the committee determines the compensation of our Chief Executive Officer based on an evaluation of his performance, and approves the compensation level of our other executive officers following an evaluation of their performance and recommendation by the Chief Executive Officer. 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."

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 – 2016 Compensation Program – Long-Term Incentives." The committee has in some years, including 2016, 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 Pay Governance, LLC, an outside executive compensation consulting firm, to provide the committee with advice regarding compensation matters for 2016 and for the equity compensation awards made to our executive officers in February 2016. All of the fees paid to Pay Governance during 2016 were in connection with the firm's work on executive compensation matters on behalf of the committee; no fees were paid to the firm for any other work. Pay Governance was retained pursuant to an engagement letter with the Compensation Committee, and the committee determined that the firm's service to Chipotle did not and does not give rise to any conflict of interest, and considers Pay Governance to have sufficient independence from our company and executive officers to allow it to offer objective advice.

The Compensation Committee held fifteen meetings in 2016, including a number of meetings with shareholders to discuss executive compensation and corporate governance matters. A report of the committee is found under the heading "Executive Officers and Compensation – Compensation Discussion and Analysis – Compensation Committee Report" on page 42.

### *Compensation Committee Interlocks and Insider Participation*

The members of the Compensation Committee are Mr. Flanzraich (Chairperson), 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 Rule16b-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 2016, other than the payments disclosed under "– Compensation of Directors" below.

*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 also 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 four meetings in 2016. The members of the committee are Mr. Flynn (Chairperson), Ms. Friedman and Mr. Gillett.

*Committee Realignment*

Immediately prior to the annual shareholder meeting, we intend to appoint new members to the Board's three standing committees in order to replace the departing members of the Board on each committee. The committee memberships following the annual meeting will be as follows:

| AUDIT COMMITTEE | COMPENSATION COMMITTEE | NOMINATING AND CORPORATE GOVERNANCE COMMITTEE |
|---|---|---|
| Al Baldocchi (Chair) | Neil Flanzraich (Chair) | Paul Cappuccio (Chair) |
| Paul Cappuccio | Ali Namvar | Neil Flanzraich |
| Robin Hickenlooper | Matthew Paull | Ali Namvar |

*Demand Review Committee*

In addition to the standing committees described above, in May 2016 the Board established a Demand Review Committee in response to requests from two individual shareholders that the Board investigate potential violations of law in connection with food safety matters. The Demand Review Committee consists of Messrs. Flanzraich and Musk.

## 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 2016 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 2016: $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. We also paid an annual retainer of $15,000 to the Lead Director for 2016. In March 2017, the Board (with Mr. Flanzraich recusing himself) approved an increase in the annual Lead Director retainer to $50,000. 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 continuing directors other than Mr. Musk, who was appointed to the Board in September 2013, and Messrs. Cappuccio, Namvar and Paull and Ms. Hickenlooper, each of whom was appointed to the Board in December 2016, met this requirement as of December 31, 2016. 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 2016 is set forth below.

| NAME | FEES EARNED OR PAID IN CASH | STOCK AWARDS(1) | TOTAL |
|---|---|---|---|
| Albert S. Baldocchi | $ 121,000 | $120,310 | $ 241,310 |
| Paul T. Cappuccio(2) | $ 5,699 | $ 6,273 | $ 11,972 |
| John S. Charlesworth | $ 101,000 | $120,310 | $ 221,310 |
| Neil W. Flanzraich | $160,250 | $120,310 | $280,560 |
| Patrick J. Flynn | $ 121,500 | $120,310 | $ 241,810 |
| Darlene J. Friedman | $ 110,750 | $120,310 | $ 231,060 |
| Stephen Gillett | $107,000 | $120,310 | $ 227,310 |
| Robin Hickenlooper(2) | $ 5,699 | $ 6,273 | $ 11,972 |
| Kimbal Musk | $ 87,500 | $120,310 | $ 207,810 |
| Ali Namvar(2)(3) | – | – | – |
| Matthew H. Paull(2) | $ 5,699 | $ 6,273 | $ 11,972 |

(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 265 shares of common stock were granted to non-employee directors Messrs. Baldocchi, Charlesworth, Flanzraich, Flynn, Gillett and Musk and Ms. Friedman on May 11, 2016 The restricted stock units were valued at $454.00, the closing price of our common stock on May 11, 2016. Restricted stock units in respect of 16 shares of common stock were granted to non-employee directors Messrs. Cappuccio and Paull and Ms. Hickenlooper upon their appointment as non-employee directors. The restricted stock units were valued at $392.07, the closing price of our common stock on December 16, 2016, the date of the grants. 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. As of December 31, 2016, Messrs Baldocchi, Charlesworth, Flanzraich, Flynn, and Musk, and Ms. Friedman, each held 696 unvested restricted stock units as of that date; Mr. Gillett held 417 unvested restricted stock units and Messrs. Cappuccio and Paull and Ms. Hickenlooper held 16 unvested restricted stock units as of that date.

(2) Ms. Hickenlooper and Messrs. Cappuccio, Namvar and Paull were appointed to the Board effective December 14, 2016.

(3) Mr. Namvar waives his right to receive compensation as an outside director.

## 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 Chief Executive Officer 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 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 intend to 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 under the Corporate Governance link.

### Chairman of the Board

Mr. Ells, our founder and Chief Executive Officer, also serves as Chairman of the Board. The Chairman of the Board presides at 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 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. The Board also believes that in light of recent changes to the Board as part of our ongoing Board refreshment efforts, the continuity of vision and strategy that is inherent in having the company founder lead the Board will be valuable as new members are assimilated onto our Board.

The Board, particularly the Lead Director and the chairperson of the Nominating and Corporate Governance Committee, as well as each member of the Board through our annual Board evaluation program, carefully considers the Board's leadership structure, and acknowledges that at some point there may be a need for a different Board leadership structure. At the present time, however, the Board is confident that the leadership of Mr. Ells as both Chairman of the Board and Chief Executive Officer is in the best interests of Chipotle and our shareholders.

### 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 and Chief Executive Officer 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, candidates for director positions and making recommendations to the Nominating and Corporate Governance Committee, (v) working in collaboration with the Chair of the Nominating and Corporate Governance Committee to complete 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 Chief Executive Officer may be, 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.

In March 2017, we agreed with shareholders Amalgamated Bank and CtW Investment Group to further strengthen our Lead Director position by providing that the Lead Director will (i) write an annual letter to shareholders to be included in the proxy statement for our annual shareholder meetings each year, beginning in 2018; (ii) review and approve the agenda for each Board meeting; (iii) together with the chair of the Compensation Committee, lead the annual performance evaluation of our Chief Executive Officer; and (iv) continue to lead executive sessions of the independent directors of the Board, which will be held at least quarterly. In reliance on these commitments, the shareholders agreed to withdraw their shareholder proposal calling for us to separate the positions of Chairman of the Board and Chief Executive Officer and appoint an independent Chairman.

### 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 evaluates the committees on which he or she serves.

The individual director evaluations consider, among other factors, (i) the extent to which directors understand our 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, evaluates the composition of the Board and its committees, and assesses the quality of meetings, agendas, presentations and meeting materials in relation to the Board's role of overseeing management's execution of our corporate strategies. 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 in communicating important information and enabling the committees to meet their responsibilities, and other matters.

For 2016, 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

Our independent directors met in executive session without management present at the end of each regularly-scheduled Board meeting during 2016. The independent directors also typically hold an executive session prior to each regularly-scheduled Board meeting as well. The Lead Director chaired the non-employee executive sessions of the Board held during 2016. The Board expects to continue to conduct executive sessions of the independent directors at each regularly-scheduled Board meeting during 2017, and independent directors may schedule additional sessions in their discretion.

At regularly-scheduled meetings of the Audit Committee and Compensation 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. The Compensation Committee also meets regularly in executive session without the executive officers, and the Nominating and Corporate Governance Committee meets in executive session without management from time to time as circumstances warrant.

### 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 nominee for election as a director at this year's annual meeting 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. Accordingly, 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 "Shareholder Proposals and Nominations for 2018 Annual Meeting – Bylaw Requirements for Shareholder Submission of Nominations and Proposals" on page 50. Our bylaws also permit qualified shareholders or groups of shareholders to include nominations for election as a director in our proxy materials. To do so, a shareholder must comply with the proxy access provisions in our bylaws.

### *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, the committee would arrange for interviews of candidates deemed worthy of further consideration. To the extent feasible, candidates are interviewed by the Chairman and Chief Executive Officer, the Lead Director, and the members of the Nominating and Corporate Governance Committee, 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).

*Board Appointments Made in December 2016*

Prior to appointing four new members to our Board in December 2016, the Nominating and Corporate Governance Committee considered a large number of potential candidates, including candidates identified by outside legal, financial and other advisors, candidates referred by members of the Board and management, and candidates identified by shareholders. The Lead Director also participated, together with the executive officers and other members of management, in a number of meetings with large shareholders at which Board succession and refreshment was discussed. In the course of this process, diversity considerations were given a high priority, along with considerations of the current skill sets represented on the Board, and skills that may be valuable in light of Chipotle's strategic priorities.

As a result of the foregoing, a list of potential candidates was generated, and the candidates – including the two candidates elected to the Board pursuant to the Investor Agreement described below – were considered as described above under "Candidate Evaluation Process."

*Investor Agreement Regarding Board Nominations*

On December 14, 2016, we and Pershing Square Capital Management, L.P. (together with funds it advises, "Pershing Square") entered into a letter of agreement (which we refer to as the "Investor Agreement") regarding nominations to the Board and a number of related matters.

The Investor Agreement provides for the nominations of Ali Namvar and Matthew Paull for election to Chipotle's Board at the 2017 annual meeting of shareholders and the 2018 annual meeting of shareholders, a procedure for replacing Mr. Namvar with a successor director in certain cases, and specified voting obligations of Pershing Square with respect to Chipotle's annual shareholder meetings. In accordance with the Investor Agreement, Pershing Square has further agreed to cause the resignation of Mr. Namvar from Chipotle's Board in the event Pershing Square's ownership of Chipotle's outstanding common stock falls below 5%.

Under the Investor Agreement, Pershing Square is also subject to specified standstill restrictions lasting generally until the later of a specified period before the advance notice period for nominating directors at Chipotle's 2019 annual meeting of shareholders, and a specified period after Pershing Square ceases to have any representatives serving on Chipotle's Board. For further details regarding the Investor Agreement and related agreements, see "Certain Relationships and Related Party Transactions."

## 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 49.

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 financial, operating and other risk exposures, 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, typically at an in-person or telephonic meeting, 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 at the end of 2015 and during 2016, the Audit Committee and management implemented additional procedures to enhance the committee's oversight over food safety risks. This enhanced oversight entails increased reporting to the Audit Committee and full Board regarding food safety-related matters, including reporting from Chipotle's Food Safety Advisory Council, a panel of outside experts and our Executive Director – Foods Safety that we've assembled to supplement the expertise of our internal team with independent guidance and validation from experts outside the company. During 2016, the Audit Committee also increased its oversight over food safety matters through participation by Mr. Charlesworth in certain food safety audits, trainings, and other activities, and follow-up reports by Mr. Charlesworth to the Audit Committee.

### *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 Chief Executive Officer with intimate knowledge of our business, industry and challenges. The Chief Executive Officer's in-depth understanding of these matters and levels of involvement in the day-to-day management of Chipotle allows him 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; the Compensation Committee will evaluate the frequency of future say-on-pay votes following this year's annual meeting and the outcome of the advisory vote called for in Proposal 3, below.

## Executive Compensation Disclosures

Detailed discussion and analysis of our executive compensation begins on page 28. See, in particular, the disclosures under "Executive Officers and Compensation – Compensation Discussion and Analysis – Executive Summary" for a concise description of the extensive changes we've made over the past two years in regards to the compensation of our executive officers, and the measures we've taken to ensure that executive compensation is aligned with company performance and the creation of shareholder value.

## 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.**

# An Advisory Vote on the Frequency With Which We Will Conduct Say-On-Pay Votes

In addition to the say-on-pay vote, we are asking you to cast an advisory vote as required by Section 14A of the Securities Exchange Act of 1934 on the frequency with which we will conduct future say-on-pay votes – every year, every two years, or every three years.

The vote on the frequency of future say-on-pay votes 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 take the voting results into consideration when determining the frequency and timing of future say-on-pay votes. SEC rules require that we conduct a say-on-pay vote at least once every three years, and a shareholder resolution in favor of holding a say-on-pay vote every two or three years would not prohibit us from holding such a vote on a more frequent basis if circumstances were to warrant it.

We hold an advisory vote on the frequency of future say-on-pay votes every six years. At our annual meeting of shareholders in 2011, shareholders voted in favor of holding annual say-on-pay votes (i.e., a vote every ONE year).

Please read the "Executive Officers and Compensation" section of this proxy statement before determining how to vote on this proposal. As described in more detail in that section, and particularly under the heading " – Compensation Discussion and Analysis," our executive compensation programs emphasize performance and accountability while maintaining alignment with shareholder interests. We believe that holding a say-on-pay vote every year will help the committee assess its success in meeting these objectives.

You are being asked to vote on a preference that we hold a say-on-pay vote every three years, two years or every year, or you may abstain from this vote.

**The Board of Directors recommends a vote in favor of holding the advisory say-on-pay vote every ONE year.**

# 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, 2017 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 as independent auditors. If shareholders do not ratify the appointment of Ernst & Young, the committee will reevaluate the appointment. Even if the selection is ratified, the committee in its discretion may select a different independent registered public accounting firm at any time during fiscal 2017 if it determines that such a change would be in the best interests of Chipotle and our shareholders.

The Audit Committee annually evaluates the performance of our independent registered public accounting firm, including the senior audit engagement team, and determines whether to reengage the current independent auditors or consider other audit firms. Factors considered by the committee in deciding whether to retain include:

- Ernst & Young's capabilities considering the scope and complexity of our business, and the resulting demands placed on Ernst & Young in terms of technical expertise and knowledge of our industry and business;
- the quality and candor of Ernst & Young's communications with the committee and management;
- Ernst & Young's independence;
- the quality and efficiency of the services provided by Ernst & Young, including input from management on Ernst & Young's performance and how effectively Ernst & Young demonstrated its independent judgment, objectivity and professional skepticism;
- external data on audit quality and performance, including recent Public Company Accounting Oversight Board (PCAOB) reports on Ernst & Young and its peer firms; and
- the appropriateness of Ernst & Young's fees, tenure as our independent auditor, including the benefits of a longer tenure, and the controls and processes in place that help ensure Ernst & Young's continued independence.

Based on this evaluation, the Audit Committee and the Board believe that retaining Ernst & Young to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2017, is in the best interests of Chipotle and our shareholders.

The Audit Committee also oversees the process for, and ultimately approves, the selection of our independent registered public accounting firm's lead engagement partner at the five-year mandatory rotation period. Prior to the mandatory rotation period, at the committee's instruction, the firm will select candidates to be considered for the lead engagement partner role, who are then interviewed by members of our management. After considering the candidates recommended by the firm, management makes a recommendation to the committee regarding the new lead engagement partner. After discussing the qualifications of the proposed lead engagement partner with the current lead engagement partner, the members of the committee, individually and/or as a group, will interview the leading candidate, and the committee then considers the appointment and approves the selection as a committee. A new lead engagement partner was appointed for the 2016 audit; the next change in lead engagement partner after the current five-year rotation period will occur for the 2021 audit.

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 for the years ended December 31, 2016 and 2015 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 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 as our independent auditors.

Ernst & Young has served as our independent auditors since 1997. Representatives of Ernst & Young 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 for the years ended December 31, 2016 and 2015 were:

| Fees for Services | 2016 | 2015 |
|---|---|---|
| Audit Fees(1) | $783,808 | $ 754,899 |
| Audit-Related Fees(2) | – | 2,148 |
| Tax Fees(3) | 168,426 | 510,107 |
| All Other Fees | – | – |
| Total Fees | $ 952,234 | $1,267,154 |

(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.

**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, 2017.**

## AUDIT COMMITTEE REPORT

With regard to the fiscal year ended December 31, 2016, the Audit Committee (i) reviewed and discussed with management our audited consolidated financial statements as of December 31, 2016 and for the year then ended; (ii) discussed with Ernst & Young LLP, the independent auditors, the matters required by the Auditing Standards 1301, Communication with Audit Committees; (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, 2016 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.

Proposal 5 is a shareholder proposal. If the shareholder proponent of the proposal, or representative who is qualified under state law, is present at the annual meeting and submits the proposal for a vote, the proposal will be voted upon. The shareholder proposal and related supporting statement is included in this proxy statement as submitted by the proponent and we accept no responsibility for its contents. The Board's statement in opposition to the proposal is presented immediately following the proposal and supporting statement. The name and address of the proponent of the 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 5

**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 15% of our outstanding common stock the power to call a special shareowner 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.

A shareholder right to act by written consent and to call a special meeting are two complimentary ways to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle. Both are associated with increased governance quality and shareholder value. Our Company offers no right of shareholders to act by written consent.

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 statue, 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 15% 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 owning 15% of our outstanding common stock to call a special meeting.

Please vote for: Special Shareowner Meetings – Proposal 5

## Statement in Opposition

Our current bylaws provide that holders of an aggregate of 25% of our outstanding common stock are permitted to call special meetings of shareholders. We believe this provision ensures that a reasonable number of shareholders consider a matter important enough to merit a special meeting in order for such a meeting to be held. Accordingly, we recommend a vote AGAINST this proposal and the lower threshold it seeks to establish.

A proposal on this topic was submitted for the 2016 annual meeting of shareholders, calling on the Board to amend our bylaws to implement a right for holders of 10% of our outstanding common stock to call a special meeting. Because our certificate of incorporation provided, prior to last year's annual meeting, that only the Board or the Chairman of the Board could call special meetings of shareholders, we included in our proxy materials for the 2016 annual meeting a proposal to remove that limitation. Our proposal further committed that, if the proposal was approved by shareholders, our Board would amend our bylaws to implement a right for holders of 25% of our outstanding common stock to call a special meeting. Our proposal and related commitment to amending our bylaws were approved by nearly 95% of the votes cast at the meeting, while the shareholder proposal seeking the right for holders of 10% of our outstanding common stock to call special meetings garnered only 43% of the votes cast.

We believe the shareholder voting at the 2016 annual meeting of shareholders, as well as the stated views of a number of our largest shareholders supporting a 25% threshold for shareholders to call special meetings, reflect strong support from our shareholders for the existing 25% ownership requirement.

A special meeting of shareholders can be a very expensive and time-consuming matter because of the cost to prepare required disclosure documents, printing and mailing costs, and the time commitment required of the Board and our executive officers to prepare for and conduct the meeting. Special meetings of shareholders should be extraordinary events that only occur when fiduciary obligations or strategic concerns require that the matters to be addressed cannot wait until the next annual meeting. We believe that the existing 25% ownership requirement strikes the appropriate balance between the right of shareholders to call a special meeting in appropriate circumstances and the substantial administrative and financial burdens that special meetings can impose on our company.

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

## EXECUTIVE OFFICERS

In addition to Steve Ells, our Chairman of the Board and Chief Executive Officer, whose biography is included under the heading "Information Regarding the Board of Directors," our executive officers as of March 27, 2017, are as follows:

*John R. (Jack) Hartung*, 59, 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 safety, security and risk; compensation and benefits; and Chipotle's European operations. 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*, 54, was appointed Chief Marketing Officer in January 2009 and as Chief Development Officer in October 2013. 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.

*Curt Garner,* 47, was appointed Chief Digital and Information Officer in March 2017. Mr. Garner joined Chipotle in November 2015 as Chief Information Officer, and prior to that had worked for Starbucks Corp. for 17 years, most recently serving as Executive Vice President and Chief Information Officer. Mr. Garner has a Bachelor of Arts degree in economics from The Ohio State University. He serves as a director of Aerohive Networks, Inc. (NYSE: HIVE).

## 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 2016. 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,

2016 was a year of both continuing challenges and turnaround for Chipotle. We have developed and are implementing a plan to rebuild our company after a number of food-borne illness incidents associated with Chipotle restaurants beginning in late 2015. The company worked to stabilize revenue and profit levels throughout 2016, and showed positive comparable restaurant sales growth in December 2016. Nevertheless, Chipotle continues to face challenges. The related negative publicity had a severe adverse impact on our sales and profitability for both 2015 and 2016. As a result of these business challenges, our stock price declined significantly in late 2015 and remained depressed through 2016.

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

As we wrote last year, the 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 dramatically limit realizable compensation when shareholder value declines and/or goals are not achieved. For a definition of realizable pay, see "Executive Summary – Alignment of CEO Realizable Pay and Performance" below. We have a history of demonstrating aligned pay for performance. Consistent with that history, due to the challenges and performance for 2016, our executive officers were not paid any cash bonuses for the year, the second year in a row of zero bonuses. Further, the committee reviewed Mr. Ells' realizable pay from 2014-2016 to evaluate the alignment of his pay and Chipotle stock price performance; realizable pay value for Mr. Ells as of December 31, 2016 was 13.4% of the 2014-2016 amounts shown in the Summary Compensation Table. Stated another way, the "in-the-money" value as of December 31, 2016 of the equity awards granted to the executive officers in 2014 and 2016 was zero, and the equity awards granted in 2015 would not have paid out as of December 31, 2016. Based on these factors, as well as input from our independent compensation consultant and other factors, the committee concluded that there was strong alignment between the CEO's pay and our stock price performance. The Board also responded to shareholder feedback to make our executive organizational structure more strategic and focused by eliminating our Co-CEO structure.

*Shareholder Outreach*

The committee has consistently conducted substantial shareholder outreach since 2014, and continued to do so throughout 2016 and into early 2017. See "Executive Summary – Response to 2016 SOP Vote and Shareholder Outreach" below for shareholder feedback received in 2016 and 2017 and changes we made as a result. We have also continued to evaluate and modify our equity incentive design and grant sizes, to ensure motivation of our highly-valued executive team in the context of shareholder perspectives.

*2016 and 2017 Performance Share Grants*

In light of the business 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 the company's stock price at the beginning of 2016 as the basis for a relative performance measure in a performance share program could create a misalignment of shareholder returns and executive officer compensation. More specifically, the committee believed that using the same relative performance measures as were used in our 2015 performance share awards might not be appropriately challenging if used in 2016 due to the low point from which we were starting in late 2015. 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 were 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 award design is discussed in greater detail below.

Our 2016 say-on-pay proposal was approved by 72% of shareholders; based upon specific shareholder feedback and our say-on-pay vote, we modified certain grant features of the 2016 performance share awards to address shareholder concerns (see "2016 Compensation Program – Long Term Incentives" below for additional details). Our 2017 performance share award uses a stock price performance goal similar to the 2016 design, while adding a comparable restaurant sales increase goal as well (see "2016 Compensation Program – Long Term Incentives – 2017 Performance Share Award Design" below for additional details). In addition to the performance share award design changes, we reduced Mr. Ells' 2017 target long-term incentive, or LTI, award by 31% when compared to his 2016 target LTI award.

The 2016 performance shares are included in the Summary Compensation Table, Grants of Plan-Based Awards in 2016 table and the Outstanding Equity Awards at December 31, 2016 table below. The 2017 performance shares are not shown in any of those tables and instead will be included in the proxy statement for our 2018 annual meeting, but we believe that an understanding of these most recent awards is important in evaluating our executive compensation practices and determining your say-on-pay vote.

In closing, 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

## Executive Summary

### *Performance Overview for 2016*

2016 was a year of change for Chipotle. We:

- Conducted a top-to-bottom review of our food safety programs and procedures and made enhancements to ensure that our food is as safe as it can possibly be.
- Relied heavily on marketing promotions – including promotions for free and discounted food, our Chiptopia Summer Rewards loyalty program, and an increased focus on catering and other out-of-restaurant sales – to restore customer loyalty and attract new customers.
- Eliminated our Co-CEO structure to simplify our decision-making and enhance our focus on providing outstanding customer experiences.

We focused on rebuilding our business following the food-borne illness challenges in late 2015, but our financial performance in 2016 reflected a slower-than-expected pace of recovery:

- Revenue decreased 13.3% on a year-over-year basis.
- Comparable restaurant sales decreased 20.4% on a year-over-year basis.
- Restaurant level operating margin was 12.8%, a decrease from 26.1% in 2015.

### *Shareholder Outreach and Response to 2016 SOP Vote*

Throughout 2016, both before and after the annual meeting, members of the Compensation Committee engaged in discussions with a number of our largest shareholders to solicit feedback on our compensation programs. These engagement efforts included discussions regarding our business strategy and plans in light of the downturn in our business that began in late 2015, and related compensation considerations.

At our 2016 annual meeting of shareholders, 72% of the votes cast by our shareholders supported our say-on-pay proposal, which was a decrease from the 95% approval at our 2015 annual meeting. We believe this result was primarily due to our disappointing business and stock price performance, but members of the committee also continued to engage with shareholders to understand what drove the vote result.

Over the course of 2016, shareholder engagement with members of the Board on compensation and governance issues reached holders of over 60% of our outstanding common stock. We view these discussions as an important opportunity to develop broader relationships with investors over the long term and to engage in open dialogue on compensation and governance related issues.

We took investor feedback into account, and took a number of actions in both 2016 and early 2017 to address investor concerns, as depicted below:

| WHAT WE HEARD FROM SHAREHOLDERS | WHAT CHIPOTLE DID |
|---|---|
| **Disappointed with the decline in stock price that began in late 2015** | • Tied 2016 performance share award to challenging absolute stock price goals to focus executive officers on rebuilding value and ensuring alignment with shareholder interests |
| **Concerned with select features of 2016 performance share award design** | • Modified 2016 awards to reduce maximum payout, increase the duration of over which stock price performance must be sustained in order for awards to vest, and add a cap in the event our stock price declines after stock price goals are achieved during the performance period |
| **Want to ensure there is balance in performance share award design and that design is complementary to key strategic objectives** | • Introduced a key financial metric – comparable restaurant sales increases – into the 2017 performance share design (see 2017 Design Highlights) in addition to challenging absolute stock price targets. |
| **Concerned with the level of equity awards to our CEO continue to be high (this was a larger issue when we had Co-CEOs)** | • Reduced 2017 equity award level for our CEO by 36% (at target)<br>• No longer have Co-CEOs |
| **Desire to ensure pay and performance alignment** | • Designed 2016 and 2017 performance share awards to have an absolute stock price goal component (the sole metric in the 2016 awards)<br>• As a result of annual incentive plan goals not being met, our executive officers did not earn annual incentive payouts for the 2015 and 2016 plan years |

### *2016 Pay Actions*

As a result of the above, our 2016 executive officer pay was significantly impacted:

| ACTION | ADDITIONAL CONSIDERATIONS |
|---|---|
| **No annual incentives under our Annual Incentive Plan, or AIP, were paid to our executive officers for 2016 performance given the 2016 annual incentive performance goals were not met** | • This is the second consecutive year for which our executive officers did not receive an annual incentive payout. |
| **Performance shares were awarded to executives tied to highly challenging absolute stock price goals** | • We intended to clearly align compensation for our executive officers to our shareholders' investment performance.<br>• As of December 31, 2016, the realizable value of these awards is $0. |
| **No salary increase for our CEO** | • Our co-CEOs, at the time, received no salary increases. |

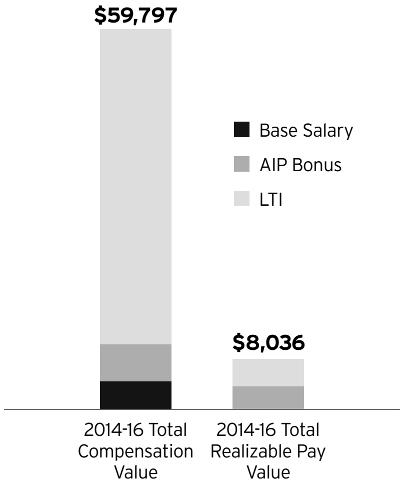
### *Alignment of CEO Realizable Pay Value and Performance*

The Compensation Committee reviewed a three-year realizable pay value analysis for the executive officers to inform design and award levels for 2017 equity awards. We calculate realizable pay as the sum of annual base salary, actual AIP bonus paid, the "in-the-money" value of SOSARs and of performance shares that are based on achievement of absolute stock price targets, and, for performance shares that are based on the level of relative achievement versus the peer group, the current value as determined by measuring relative performance thus far in the performance period and determining the resulting level of assumed payout.

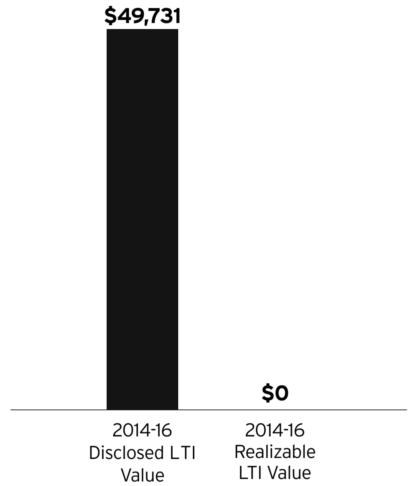
- The aggregate realizable pay value of the total base salary, AIP bonus, and long-term incentives, or LTI, for our CEO for the last three fiscal years (2014-2016) was $8.0 million at the end of 2016, or approximately 13.4% of the three-year total compensation values disclosed in the Summary Compensation Table (plus the target AIP bonus for each year).
- The realizable pay value of our last three fiscal years of LTI awards to our CEO was zero at the end of 2016.
- Another way to express the realizable pay value of our last three fiscal years of LTI awards is that the 2014 and 2016 awards, the value of which is driven directly by stock price, had zero "in-the-money" value as of December 31, 2016, and the 2015 awards, the value of which is based on relative performance versus our peer group, would not have paid out as of December 31, 2016.

The graphics below depict these findings, which demonstrate alignment of the CEO's realizable pay with shareholders' investment performance over the three-year time period shown.

**2014-16 Total Compensation Value and Realizable Pay Value**
($000)




**2014-16 Disclosed LTI Value and Realizable LTI Value**
($000)




Strong performance in sales growth, net income growth, and total shareholder return relative to our restaurant peer group during 2017 will result in a payout of the performance shares granted in 2015. For value to be realized under the 2014 and 2016 awards, our stock price would have to increase to more than $543.20 per share by February 2021 (for the 2014 SOSARs), or to an average of at least $700 per share for 60 consecutive trading days by February 2019 (for the 2016 performance shares).

***Alignment of Executive Compensation with Shareholder Interests: What We Do and Don't Do***

| WHAT WE DO | WHAT WE DON'T DO |
|---|---|
| ✓ Conduct extensive shareholder engagement on compensation and governance related issues. Engage in careful consideration of the annual say-on-pay results and respond to shareholder feedback when appropriate.<br>✓ Employ an LTI program based entirely on performance-based equity awards.<br>✓ Maintain a strong link between financial and operational goals, shareholder value creation and executive compensation.<br>✓ Ensure our compensation programs are designed to discourage excessive risk taking, with design features including the incorporation of multiple performance measures in our incentive programs, strong executive stock ownership guidelines, three-year performance and vesting periods on LTI awards, payout limitations in performance share awards in the event of deteriorating stock price performance, and a clawback policy related to LTI awards.<br>✓ Use an independent compensation consultant who is engaged directly by the committee to advise on executive compensation matters. | ✗ No guaranteed employment contracts or change-in-control agreements.<br>✗ Executive officers and directors are prohibited from hedging or pledging shares of Chipotle stock or holding Chipotle stock in margin accounts.<br>✗ No stock option repricing, reloads, exchanges or options granted below market value without shareholder approval.<br>✗ Equity awards include double triggers in order for an executive to receive benefits in connection with a change in control.<br>✗ Engage the committee's consultant for additional work for or on behalf of the executive officers. |

## 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 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 annual 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 be measured by comparing our company performance to market-wide performance in our industry, as well as subjectively evaluating each executive officer's performance.

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.

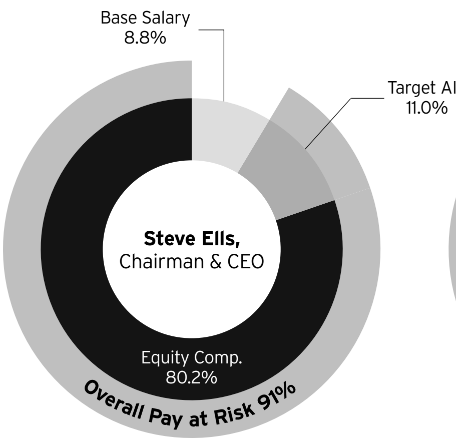
## Executive Compensation Program Components and Structures

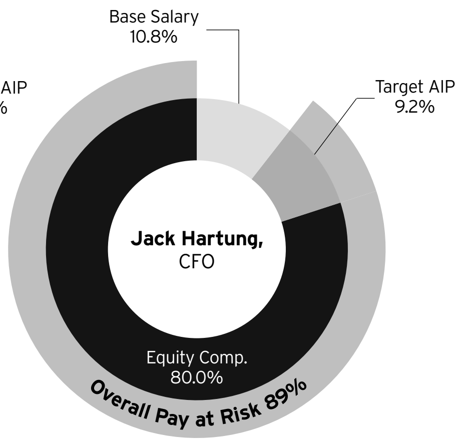
Our executive compensation program is comprised of three primary components:

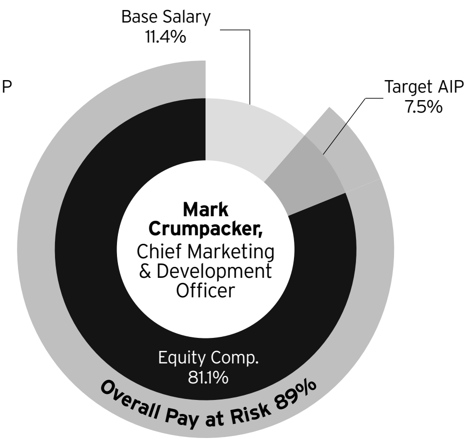
| BASE SALARY | ANNUAL CASH BONUS (AIP) | EQUITY COMPENSATION (LTI) |
|---|---|---|
| Determined subjectively each year based on each executive's contributions, individual performance, and level of experience. | Determined under our company-wide Annual Incentive Plan, or AIP, which provides for variable 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. | Aligns the incentives of our executive officers with shareholder interests and rewards the creation of shareholder value.<br>• For 2016, following significant stock price declines in late 2015 and early 2016, and after significant ongoing dialogue with shareholders, we used a different structure for the executive officers' performance share awards than in 2015, with vesting of the 2016 awards based solely on restoration of shareholder value to levels achieved prior to the food-borne illness issues that impacted us in the latter half of 2015.<br>• For 2017, in response to a decline in the level of approval of our say-on-pay vote in 2016, and after significant ongoing dialogue with shareholders, we amended the 2016 awards to address concerns expressed by shareholders about the 2016 awards. We also used a similar structure for the 2017 awards with lower grant date values than the 2016 awards. |

## Pay at Risk

The Compensation Committee allocates pay among 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 2016 compensation, including target AIP bonus):




## Factors in Setting Executive Officer Pay

The committee sets compensation for the executive officers annually after considering the following factors:

- Chipotle's performance relative to goals approved by the committee
- The business climate in the restaurant industry, general economic conditions and other factors
- Each executive officer's experience, knowledge, skills and personal contributions
- Levels of compensation for similar jobs at market reference points
- The degree of difficulty in committee-approved goals

The CEO makes recommendations to the committee regarding compensation for executive officers after reviewing Chipotle's overall performance and each executive officer's personal contributions. The CEO uses discretion when making pay recommendations to the committee. The committee is responsible for approving executive officer compensation and has broad discretion when setting compensation types and amounts.

With respect to the CEO, the committee annually reviews and approves the corporate goals and objectives relevant to the CEO's compensation, evaluates the CEO's performance against those objectives and makes determinations regarding the CEO's compensation level based on that evaluation.

As part of its reviews of executive compensation, the committee reviews tally sheets that show historical pay for each executive officer (including the CEO), as well as their accumulated equity. These tally sheets are used as a reference point to assist the committee in understanding the overall compensation provided to each executive officer.

## Roles and Responsibilities of the Committee, Compensation Consultant and the CEO in Setting Executive Officer Compensation

| Responsible Party | Role and Responsibilities |
|---|---|
| **Compensation Committee**<br>*The committee is currently comprised of three independent directors and reports to the Board* | • Retains independent consultants and counsel to assist it in evaluating compensation and fulfilling its obligations as set forth in its Charter.<br>• Works with the CEO to set performance goals at the beginning of each year targeted to positively influence shareholder value.<br>• Evaluates CEO performance in relation to those goals and Chipotle's overall performance.<br>• Determines and approves compensation for our executive officers.<br>• Reviews and approves overall compensation philosophy and strategy, as well as all compensation and benefits programs in which our executive officers participate.<br>• Reviews applicable peer group and broader market data as one of multiple reference points.<br>• Engages with shareholders and others to receive stakeholder input on executive compensation matters. |
| **Consultant to the Compensation Committee**<br>*Pay Governance, as an independent consultant, has been retained directly engaged by the committee to provide consulting advice on matters of governance and executive compensation* | • Provides advice and opinion on the appropriateness and competitiveness of our compensation programs relative to market practice, our strategy and internal processes.<br>• Performs all functions at the direction of the committee.<br>• Attends committee meetings.<br>• Provides advice regarding compensation decision-making governance.<br>• Provides market data, as requested.<br>• Consults on various compensation matters and recommends compensation program designs and practices.<br>• Confers with the committee, the CEO, the CFO and the company's compensation and benefits team on incentive goals (annual and long-term). |
| **Chief Executive Officer**<br>*With the support of other members of the management team, including the internal compensation and benefits team* | • Works with the other executive officers to set performance goals at the beginning of each year that are targeted to positively influence shareholder value.<br>• Reviews performance of the other executive officers and makes recommendations to the committee with respect to their compensation.<br>• Confers with the committee concerning design and development of compensation and benefit plans for Chipotle executive officers and employees. |

## Role of Market Data and Our Peer Group

### *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.

Each year, the committee's independent compensation consultant provides the committee with pay data for executive officer roles and the incentive plan structures of the companies in our peer group. The committee does not explicitly benchmark our executive officers' compensation to the peers, but the peer group data is one of multiple reference points used to evaluate our executive compensation programs.

### *2016 Peer Group*

The peer group used for 2016 was comprised publicly-traded companies in the restaurant industry, as defined by the Global Industry Classification Standard (GICS), with annual revenues greater than $500 million, excluding companies serving a substantially different market or client base than we do.

*$ in millions*

| Company Name | Revenues[1] | Market Cap[2] |
|---|---|---|
| McDonald's Corporation | $24,622 | $101,082 |
| Starbucks Corporation | $ 21,316 | $80,804 |
| Darden Restaurants, Inc. | $ 6,995 | $ 8,950 |
| Yum! Brands, Inc. | $ 6,366 | $ 23,242 |
| Bloomin' Brands, Inc. | $ 4,252 | $ 1,900 |
| Brinker International, Inc. | $ 3,236 | $ 2,459 |
| Cracker Barrel Old Country Store, Inc. | $ 2,920 | $ 4,014 |
| Panera Bread Company | $ 2,795 | $ 4,798 |
| Domino's Pizza, Inc. | $ 2,394 | $ 7,677 |
| The Cheesecake Factory Incorporated | $ 2,199 | $ 2,726 |
| Texas Roadhouse, Inc. | $ 1,991 | $ 3,402 |
| Buffalo Wild Wings, Inc. | $ 1,987 | $ 2,810 |
| Papa John's International, Inc. | $ 1,714 | $ 3,157 |
| Jack in the Box Inc. | $ 1,599 | $ 3,610 |
| The Wendy's Company | $ 1,590 | $ 3,321 |
| Bob Evans Farms, Inc. | $ 1,344 | $ 1,052 |
| Red Robin Gourmet Burgers, Inc. | $ 1,296 | $ 725 |
| Ruby Tuesday, Inc. | $ 1,022 | $ 191 |
| BJ's Restaurants, Inc. | $ 961 | $ 914 |
| Carrols Restaurant Group, Inc. | $ 932 | $ 538 |
| Biglari Holdings Inc. | $ 850 | $ 978 |
| Dunkin' Brands Group, Inc. | $ 829 | $ 4,810 |
| Fiesta Restaurant Group, Inc. | $ 720 | $ 798 |
| DineEquity, Inc. | $ 634 | $ 1,393 |
| Sonic Corp. | $ 590 | $ 1,238 |
| Ignite Restaurant Group, Inc. | $ 462 | $ 14 |
| *Peer group median* | $ 1,657 | $ 2,768 |
| | | |
| Chipotle Mexican Grill, Inc. | $ 3,904 | $ 10,923 |
| *Percentile Rank* | 81% | 89% |

**Notes:**

(1) Trailing 12 months as of December 31, 2016.

(2) As of December 31, 2016.

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.

## 2016 Compensation Program

### *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.

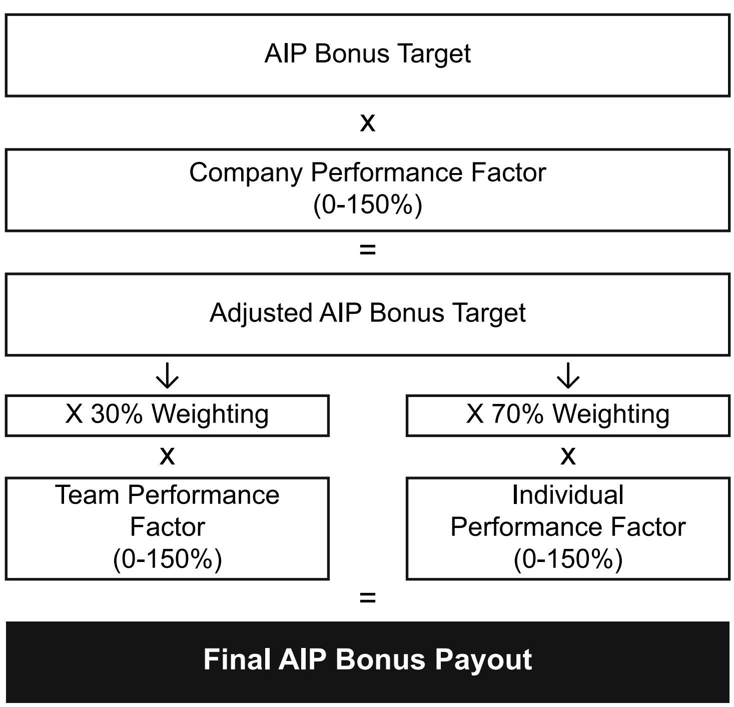
We do not have written employment agreements with any of our executive officers and therefore do not have contractual commitments to pay any particular level of base salary. Rather, the committee reviews the base salary of each executive officer, at least annually, and adjusts salary levels as the committee deems necessary and appropriate; the salaries for our Co-CEOs were not adjusted in 2016 nor was our CEO's salary adjusted in 2017.

Recommendations for the executive officers (other than the CEO) are provided to the committee by our CEO. The committee reviews the CEO's base salary and recommends any changes for review and approval by the full Board. Adjustments to base salaries, if any, typically occur during the first quarter of each year.

| Executive Officer | Base Salaries | | |
|---|---|---|---|
| | 2015 | 2016 | % Change |
| Steve Ells | $1,540,000 | $1,540,000 | 0% |
| Monty Moran | $1,320,000 | $1,320,000 | 0% |
| Jack Hartung | $ 750,000 | $ 800,000 | 7% |
| Mark Crumpacker | $ 535,000 | $ 600,000 | 12% |

### *Annual Incentive Plan*

The AIP is our annual cash incentive program for all employees. Our executive officers participate in the AIP alongside other eligible salaried employees, with slight variations to the plan terms in order to appropriately incentivize our executive officers to drive superior business results. The formula to determine payouts under the 2016 AIP consisted of a company performance factor (CPF), a team performance factor (TPF) and an individual performance factor (IPF):



Targeted goals for business performance metrics used to determine the company performance factor are set at the beginning of the year. Achievement at the target level of each performance metric would yield a company performance factor of 100%, equating to a payout at the target level. The company performance factor is adjusted up or down based on the performance versus the underlying performance metrics. As a result of our underperformance versus the AIP performance metrics in 2016, as depicted below, the CPF was 0%.

| CPF Measure | Target | Actual | Impact on CPF |
|---|---|---|---|
| Adjusted Operating Income | $503.1 million | $102.1 million | -92.5% |
| New Restaurant Average Daily Sales | $4,954 | $3,801 | -12.0% |
| Comparable Restaurant Sales | -12.2% | -20.3% | -46.2% |
| New Weeks of Operations | 6,622 | 6,045 | -2.6% |
| Key Initiatives | - | - | 0.0% |
| | | **Total:** | **-153.3%** |

| | |
|---|---|
| A. Beginning CPF: | 100.0% |
| B. Actual Perf. Impact to CPF: | -153.3% |
| **C. Final CPF (A + B)*** | **0%** |

**Cannot be less than 0% or higher than 150%*

The team performance measure generally uses the same underlying performance measures as the company performance measure, but is based on regional-or corporate office-specific goals. For 2016, the team performance measure did not include a New Weeks of Operations performance measure.

The individual performance factor is a function of an individual employee's subjective performance rating for the year. The committee evaluates the performance of the CEO to determine his individual performance factor, and approves individual performance factors for each of the other executive officers after considering recommendations from the CEO.

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 to ensure that AIP bonuses further the objectives of our compensation programs. The committee did not exercise any discretion when determining the executive officer's AIP bonuses for 2016.

We did not award AIP bonuses to our executive officers as shown below:

| Executive Officer | Target 2016 AIP Bonus | | Actual 2016 AIP Bonus | Actual as % of Target |
|---|---|---|---|---|
| | % of Base Salary | Dollar Value | | |
| Steve Ells | 125% | $1,925,000 | $0 | 0% |
| Monty Moran | 125% | $1,650,000 | $0 | 0% |
| Jack Hartung | 85% | $680,000 | $0 | 0% |
| Mark Crumpacker | 65% | $390,000 | $0 | 0% |

### *Long-Term Incentives*

*2016 Performance Share Award Design*

In late 2015, the Compensation 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 the committee's independent consultant, 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 a performance evaluation relative to our peers could create a misalignment of shareholder returns and executive officer compensation. More specifically, the committee recognized that performance relative to our peers on the measures incorporated into the 2015 performance share awards may not translate into rebuilding lost shareholder value or be appropriately challenging due to the lowered point from which performance would begin to be measured.

In early 2016, the committee discussed some of these issues and potential equity program changes with our largest shareholders. Following those discussions and after further review and analysis, for 2016, the committee decided to continue using performance shares for the executive officer equity compensation program. The 2016 performance shares are solely tied to highly-challenging absolute stock price performance goals over the three-year performance period beginning on the grant date, 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 relatively low strike price that would be associated with this type of grant.

Vesting of the awards is based on Chipotle's stock price performance over the three-year performance period. The initial terms stipulated that the awards would only pay out only if the average closing price of Chipotle's common stock for any period of 30 consecutive trading days during performance period was at least $700, which was 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 period was to be determined based on the highest average closing stock price achieved for any period of 30 consecutive trading days during the performance period.

After soliciting shareholder feedback during the second half of 2016 following the say-on-pay vote at the 2016 annual meeting, the committee recommended in early 2017, and the executive officers (other than Mr. Moran in light of his pending retirement) accepted, the following modifications to the 2016 performance share award terms:

- The measurement period for establishing stock price achievement was increased from 30 days to 60 days.
- The maximum payout was reduced to 300% of target award (the prior maximum was 400% of target).
- An end-of-period performance modifier was added that stipulates if the average stock price for the last 60 days in the performance period is below $650, then the final payout will be no higher than target, even if an above-target average stock price was achieved during the performance period.

The table below depicts potential payouts under the 2016 performance shares awards after giving effect to the modifications made in early 2017:

| Executive Officer | Number of Shares Eligible to be Earned | | | Target Value on Grant Date* |
|---|---|---|---|---|
| | $700 (Threshold) | $800 (Target) | $1,000 (Maximum)(1) | |
| Steve Ells | 13,500 | 27,000 | 81,000 | $12,466,980 |
| Monty Moran(1) | 6,060 | 12,120 | 36,360 | $12,466,980 |
| Jack Hartung | 5,675 | 11,350 | 34,050 | $ 5,240,749 |
| Mark Crumpacker | 4,050 | 8,100 | 24,300 | $ 3,740,094 |

* Based on grant date stock price of $461.74

(1) – The maximum payout for Mr. Moran's award remains at 400% of target, in the event the average stock price determined under the award terms is $1,200 per share or greater. In light of Mr. Moran's proposed retirement in June 2017, the payouts of his award, if any, will be prorated based on the portion of the performance period during which he was employed. The prorated payouts would be 6,060 shares at threshold, 12,120 shares at target, and 48,482 shares at maximum.

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 60 consecutive trading days (30 consecutive trading days for Mr. Moran) during the performance period, 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 period, 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.

*2017 Performance Share Award Design*

In early 2017, we continued with our shareholder outreach and discussed our potential 2017 performance share award design with several of our largest shareholders. The 2017 performance share award design uses a stock price performance goal similar to the 2016 design, while adding a comparable restaurant sales increase goal as well.

- As a result of our trailing one-year stock price range of approximately $350 to $540, the committee determined that it would be appropriate to establish a stock price performance goal of $650, in order to ensure the awards have motivational value to our executive officers. Although this is a lower stock price goal relative to the 2016 award, the stock price goal remains well above the stock price as of the grant date and will require the restoration of substantial shareholder value before the awards pay out at all. As a result, the committee determined that the stock price goal was appropriately challenging.
- Comparable restaurant sales is a metric closely followed by our management, our shareholders, and securities analysts and is a key measure for any growth-oriented restaurant or retail organization. Restoring our industry-leading economic model will be substantially dependent on comparable restaurant sales growth, and including this measure in the award ties any payout to a strong company sales recovery, rather than tying the payout solely to stock price performance.

The absolute stock price goals have similar parameters as the modified 2016 awards:

- 60-day average to determine stock price goal achievement.
- End-of-period performance modifier that stipulates if the average stock price for the last 60 days in the performance period is below $600, then the final payout will be no higher than target, even if an above-target average stock price was achieved during the performance period.

| Metric | Weighting | Performance Period | Performance Level | Stock Price / 3-Year CRS CAGR Goals | Payout (as % of target) |
|---|---|---|---|---|---|
| Absolute Stock Price | 2/3 | Feb. 19, 2017 to Feb. 19, 2020 | Threshold | $600 | 50% |
| | | | Target | $650 | 100% |
| | | | Maximum | $900 | 350% |
| CRS 3-Year Compound Annual Growth Rate | 1/3 | Jan. 1, 2017 to Dec. 31, 2019 | Threshold | 5% | 50% |
| | | | Target | 7% | 100% |
| | | | Maximum | 11% | 300% |

Given 2016 stock price performance and financial results, the committee believed a reduction in the target value of the 2017 performance share award as compared to 2016 was appropriate, and reduced Mr. Ells' target award value significantly:

| Target 2017 Award Value | Percentage Change versus 2016 (at target) |
|---|---|
| $8.6 million | -31% |

"Target value" refers to the number of shares payable at target level performance, times the stock price as of the grant date. The target value of the 2016 performance share award for each of our then-serving Co-CEOs was $12.5 million. The grant date fair value shown in the Summary Compensation Table was $14.0 million as a result of the accounting expense valuation required by SEC reporting requirements; the grant date fair value reflected in the Summary Compensation Table for Mr. Ells for 2017 will also differ from the $8.6 million target value disclosed above.

*Expiration of 2013 Performance Share Awards Without Payout*
The end of the third quarter of 2016 concluded the three-year performance period for performance shares awarded in December of 2013. These performance share awards consisted 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. The minimum performance threshold was not achieved, and these awards expired without value at the conclusion of the performance period.

***Benefits and Perquisites***
In addition to the principal compensation elements described above, 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.

## 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 for each named executive officer who continues to serve as an executive officer. The guidelines are reviewed for possible adjustment each year and may be adjusted by the committee at any time.

| OFFICER | # OF SHARES | ACTUAL OWNERSHIP | ACTUAL OWNERSHIP AS % OF BASE SALARY(1) |
|---|---|---|---|
| Steve Ells | 31,000 | 196,802 | 53x |
| Jack Hartung | 7,000 | 30,464 | 16x |
| Mark Crumpacker | 3,000 | 3,000 | 2x |

(1) – Based on the closing stock price on March 27, 2017.

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.

For stock ownership guidelines applicable to non-employee members of our Board of Directors, see page 14.

### Prohibition on Hedging and Pledging

To further align the interests of our officers with those of our shareholders, we have adopted a policy prohibiting our directors and certain employees, including all of the executive officers, from hedging their Chipotle stock ownership, pledging their shares of Chipotle stock as collateral for loans, or holding shares of Chipotle stock in margin accounts.

### Executive Agreements

We have generally 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.

In connection with the planned retirement of Mr. Moran as our Co-CEO, we entered into a Retirement and Non-Competition Agreement with him in December 2016, pursuant to which he has agreed for a two-year period not to, directly or indirectly, own, manage, operate, control, be employed or engaged in any capacity (whether or not for compensation) by, or render services, advice, or assistance in any capacity to, a business competing with us in the continental United States. Through his retirement date, Mr. Moran will remain employed in a non-officer position. The Retirement and Non-Competition Agreement contains certain other rights and obligations, and the foregoing description of the agreement is qualified in its entirety by reference to the full terms of the agreement, which is filed as an exhibit to our Current Report on Form 8-K filed on December 12, 2016.

### Compensation Program Risk

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.

### 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 preserve the deductibility of 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 AIP bonus rather than the maximum bonus payable under the 2014 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

## 2016 COMPENSATION TABLES

## SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | YEAR | SALARY | STOCK AWARDS(1) | OPTION AWARDS(2) | NON-EQUITY INCENTIVE PLAN COMPENSATION(3) | ALL OTHER COMPENSATION(4) | TOTAL |
|---|---|---|---|---|---|---|---|
| **STEVE ELLS** | 2016 | $1,540,000 | $14,002,740 | – | – | $ 120,356 | $ 15,663,096 |
| *Chairman and Chief Executive Officer* | 2015 | $1,526,000 | $12,030,036 | – | – | $ 281,858 | $ 13,837,891 |
| | 2014 | $1,400,000 | - | $23,698,500 | $3,570,000 | $255,770 | $28,924,270 |
| **MONTY MORAN(5)** | 2016 | $1,320,000 | $14,002,740 | – | – | $ 156,520 | $ 15,479,260 |
| *Former Co-Chief Executive Officer* | 2015 | $1,308,000 | $12,030,036 | – | – | $ 223,041 | $ 13,561,077 |
| | 2014 | $1,200,000 | - | $23,698,500 | $3,060,000 | $ 194,702 | $ 28,153,203 |
| **JACK HARTUNG** | 2016 | $ 792,308 | $ 5,886,337 | – | – | $ 175,559 | $ 6,854,204 |
| *Chief Financial Officer* | 2015 | $ 745,769 | $ 5,052,179 | – | – | $ 235,361 | $ 6,033,309 |
| | 2014 | $ 700,000 | - | $ 8,125,200 | $ 1,213,800 | $206,842 | $ 10,245,842 |
| **MARK CRUMPACKER** | 2016 | $ 590,000 | $ 4,200,822 | – | – | $ 109,914 | $ 4,900,736 |
| *Chief Marketing and Development Officer* | 2015 | $ 532,077 | $ 3,608,930 | – | – | $ 141,581 | $ 4,282,588 |
| | 2014 | $ 500,000 | - | $ 4,062,600 | $ 663,000 | $ 109,591 | $ 5,335,191 |

(1) Amounts under "Stock Awards" represent the grant date fair value under FASB Topic 718 of performance shares awarded in 2015 and 2016, and for the 2015 award, 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, 2016, which are included in our Annual Report on Form 10-K filed with the SEC on February 7, 2017, 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 2016 performance share awards will not pay out or have any value unless the price of our common stock exceeds an average of $700 for a period of 60 consecutive trading days, before February 3, 2019. For further discussion, see above under "Compensation Discussion and Analysis – 2016 Compensation Program – Long Term Incentives – 2016 Award Design."

(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, 2016, 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. Options granted in 2014 and reflected in this table have an exercise price of $543.20 per share, and expire in February 2021.

(3) Amounts under "Non-Equity Incentive Plan Compensation" represent the amounts earned under the AIP for the relevant year.

(4) Amounts under "All Other Compensation" for 2016 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 $60,354 for Mr. Ells, $53,246 for Mr. Moran, $32,846 for Mr. Hartung, and $23,523 for Mr. Crumpacker. See "Non-Qualified Deferred Compensation for 2016" 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 $59,249, for Mr. Moran were $102,521, for Mr. Hartung were $38,885, and for Mr. Crumpacker were $32,078.
- Housing costs, including monthly rent and utilities payments, of $44,108 for Mr. Hartung and $47,319 for Mr. Crumpacker.
- $25,816 for Mr. Hartung and $6,241 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 $33,151.

(5) Mr. Moran stepped down from the position of Co-Chief Executive Officer in December 2016 in connection with his planned retirement in June 2017.

## GRANTS OF PLAN-BASED AWARDS IN 2016

| NAME | GRANT DATE | AWARD DESCRIPTION | ESTIMATED POSSIBLE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS(1) THRESHOLD ($) | TARGET ($) | MAXIMUM ($) | ESTIMATED POSSIBLE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS(2) THRESHOLD (# shares) | TARGET (# shares) | MAXIMUM (# shares) | GRANT DATE FAIR VALUE OF STOCK AWARDS(3) |
|---|---|---|---|---|---|---|---|---|---|
| STEVE ELLS | | | | | | | | | |
| | n/a | AIP | $ 0 | $ 1,925,000 | $ 4,331,250 | | | | |
| | 2/3/16 | Performance Shares | | | | 13,500 | 27,000 | 81,000 | $ 14,002,740 |
| MONTY MORAN | | | | | | | | | |
| | n/a | AIP | $ 0 | $ 1,650,000 | $ 3,712,500 | | | | |
| | 2/3/16 | Performance Shares | | | | 6,060 | 12,120 | 48,482 | $ 14,002,740 |
| JACK HARTUNG | | | | | | | | | |
| | n/a | AIP | $ 0 | $ 680,000 | $ 1,530,000 | | | | |
| | 2/3/16 | Performance Shares | | | | 5,675 | 11,350 | 34,050 | $ 5,886,337 |
| MARK CRUMPACKER | | | | | | | | | |
| | n/a | AIP | $ 0 | $ 390,000 | $ 877,500 | | | | |
| | 2/3/16 | Performance Shares | | | | 4,050 | 8,100 | 24,300 | $ 4,200,822 |

(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 – 2016 Compensation Program – Annual Incentive Plan." 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 Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan. Achievement at the threshold level would require that our average closing stock price for any period of 60 consecutive trading days (30 consecutive trading days for Mr. Moran) during the performance period be at least $700. See "Terms of 2016 Performance Share Awards" below for further description of the vesting terms for the Performance Shares granted during 2016. See Note 6 to our audited consolidated financial statements for the year ended December 31, 2016, which are included in our Annual Report on Form 10-K filed with the SEC on February 7, 2017, 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 2016.

As described under "Compensation Discussion and Analysis – 2016 Compensation Program – Long-Term Incentives" above, these awards were modified in March 2017 for each current executive officer so that the maximum payouts under the awards are now as shown in the table. The original awards provided for maximum payouts of 108,000 shares for Mr. Ells, 45,400 shares for Mr. Hartung, and 32,400 shares for Mr. Crumpacker. The payouts for Mr. Moran, who will retire in June 2017, subject to the terms of his retirement agreement were not modified with the other executive officers, but will be prorated based on his retirement date. The table reflects the pro-rated payouts to which he would be entitled; the original awards provided for payouts of 13,500 shares at the threshold level of performance, 27,000 shares at target, and 108,000 shares at maximum.

(3) See footnote (1) to the Summary Compensation Table above.

### Terms of 2016 Performance Share Awards

Vesting of the performance share awards granted to the executive officers in 2016 will be based on Chipotle's stock price performance over the three-year performance term. The awards will pay out only if the average closing price of Chipotle's common stock for any period of 60 consecutive trading days during performance term (or 30 consecutive trading days for Mr. Moran, whose award was not modified in February 2017 with the other executive officers due to his pending retirement) 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 60 consecutive trading days during the performance term (30 consecutive trading days for Mr. Moran). Additionally, as a result of the modification of each award (other than Mr. Moran's) in March 2017, if the average closing stock price of Chipotle's common stock during the last 60 consecutive trading days of the performance period is below $650, the maximum payout of the award will be no greater than the target payout, regardless of whether a higher payout level was actually achieved earlier in the performance period.

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 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 27, 2016.

## OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2016

| | OPTION AWARDS | | | | STOCK AWARDS | |
|---|---|---|---|---|---|---|
| NAME | 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 |
| **STEVE ELLS** | | | | | | |
| | 43,750 | 43,750(1) | $543.20 | 2/3/2021 | 7,444(3) | $2,808,770(4) |
| | 43,750 | 43,750(2) | $543.20 | 2/3/2021 | 13,500(5) | $5,093,820(4) |
| **MONTY MORAN** | | | | | | |
| | 40,000 | - | $ 371.63 | 2/6/2019 | 7,444(3)(6) | $2,808,770(4) |
| | 60,000 | - | $ 371.63 | 2/6/2019 | 13,500(5)(6) | $5,093,820(4) |
| | 75,000 | - | $ 318.45 | 2/7/2020 | | |
| | 75,000 | - | $ 318.45 | 2/7/2020 | | |
| | 43,750 | 43,750(1) | $543.20 | 2/3/2021 | | |
| | 43,750 | 43,750(2) | $543.20 | 2/3/2021 | | |
| **JACK HARTUNG** | | | | | | |
| | 25,000 | - | $ 318.45 | 2/7/2020 | 3,126(3) | $ 1,179,502(4) |
| | 25,000 | - | $ 318.45 | 2/7/2020 | 5,675(5) | $ 2,141,291(4) |
| | 15,000 | 15,000(1) | $543.20 | 2/3/2021 | | |
| | 15,000 | 15,000(2) | $543.20 | 2/3/2021 | | |
| **MARK CRUMPACKER** | | | | | | |
| | 4,000 | - | $ 318.45 | 2/7/2020 | 2,233(3) | $ 842,556(4) |
| | 4,000 | - | $ 318.45 | 2/7/2020 | 4,050(5) | $ 1,528,146(4) |
| | 2,000 | - | $365.80 | 6/8/2020 | | |
| | 7,500 | 7,500(1) | $543.20 | 2/3/2021 | | |
| | 7,500 | 7,500(2) | $543.20 | 2/3/2021 | | |

(1) Vesting of the unvested portion of these Performance SOSARs is contingent upon our achievement of stated levels of cumulative cash flow from operations prior to the fifth fiscal year-end following the award date, with vesting to occur no sooner than February 3, 2017. 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."

(2) These SOSARs, which were subject to time-based vesting only, vested in full on February 3, 2017.

(3) Represents shares issuable under the 2015 performance share awards, assuming achievement at the threshold level. Vesting is based on relative achievement versus our restaurant industry peer group in sales growth, net income growth and total shareholder return over the three year performance period.

(4) Based on the closing stock price of our common stock on December 30, 2016 of $377.32 per share.

(5) Represents shares issuable under the 2016 performance share awards, assuming achievement at the threshold level (which would require that our average closing stock price for any period of 60 consecutive trading days during the performance period is at least $700). The performance terms for the 2016 performance share awards are further described above under " – Terms of 2016 Performance Share Awards."

(6) Any payouts for Mr. Moran, who will retire in June 2017, subject to the terms of his retirement agreement, will be prorated based on his retirement date and would be 5,984 shares at the threshold level for the award described in note (3) above, and 6,060 shares at the threshold level for the award described in note (5), above.

### OPTION EXERCISES AND STOCK VESTED IN 2016

The following table provides summary information about all SOSARs exercised by our executive officers during 2016. No full-value shares of stock vested during 2016.

| NAME | OPTION AWARDS | |
|---|---|---|
| | NUMBER OF SHARES ACQUIRED ON EXERCISE | VALUE REALIZED ON EXERCISE(1) |
| Steve Ells | 75,000 | $9,245,980 |

(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 on the date of exercise; this amount does not take into account the tax liability associated with the exercise.

### NON-QUALIFIED DEFERRED COMPENSATION FOR 2016

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.

The table below presents contributions by each executive officer, and our matching contributions, to the Supplemental Deferred Investment Plan during 2016, as well as each executive officer's earnings under the plan and ending balances in the plan on December 31, 2016.

| NAME | EXECUTIVE CONTRIBUTIONS IN LAST FY[1] | REGISTRANT CONTRIBUTIONS IN LAST FY[2] | AGGREGATE EARNINGS) IN LAST FY[3] | AGGREGATE WITHDRAWALS/ DISTRIBUTIONS | AGGREGATE BALANCE AT LAST FYE[4] |
|---|---|---|---|---|---|
| Steve Ells | $ 62,192 | $49,754 | $ 71,819 | $654,003 | $1,006,524 |
| Monty Moran | $ 52,570 | $42,646 | $110,649 | $948,590 | $2,577,344 |
| Jack Hartung | $372,154 | $30,538 | $ 34,942 | - | $ 6,178,923 |
| Mark Crumpacker | $ 16,154 | $ 12,923 | $ 12,219 | $ 61,583 | $ 249,977 |

(1) These amounts are reported in the Summary Compensation Table as part of each executive's "Salary" for 2016.

(2) These amounts are reported in the Summary Compensation Table as part of each executive's "All Other Compensation" for 2016.

(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 2016 (ignoring for purposes of this footnote any investment losses on balances in the plan and any withdrawals/distributions), in the following aggregate amounts: $2,338,669 for Mr. Ells, $3,134,558 for Mr. Moran, $5,228,939 for Mr. Hartung, and $318,612 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 2016, as well as his aggregate ending balance in the plans as of December 31, 2016.

| NAME | EXECUTIVE CONTRIBUTIONS IN LAST FY | REGISTRANT CONTRIBUTIONS IN LAST FY | AGGREGATE EARNINGS IN LAST FY[1] | AGGREGATE WITHDRAWALS/ DISTRIBUTIONS[2] | AGGREGATE BALANCE AT LAST FYE |
|---|---|---|---|---|---|
| Jack Hartung | - | - | $4,908 | $383,536 | - |

(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. However of the unvested equity-based awards outstanding as of December 31, 2016, (i) the 2014 SOSAR awards and 2016 performance share awards were "underwater" based on the closing price of our common stock on December 31, 2016 and therefore had no value as of that date, and (ii) the 2015 performance share awards would not have paid out, based on our relative performance versus the peer group as of December 31, 2016.

On December 9, 2016, Monty Moran, who previously served as Co-Chief Executive Officer, provided us notice that he will retire effective June 9, 2017, and resigned from his officer positions and as a member of our Board. In connection with his resignation and pending retirement, Mr. Moran entered into a Retirement and Non-Competition Agreement, pursuant to which he has agreed for a two year period not to, directly or indirectly, own, manage, operate, control, be employed or engaged in any capacity (whether or not for compensation) by, or render services, advice, or assistance in any capacity to, a business competing with us in the continental United States. Through his retirement date, Mr. Moran will remain employed in a non-officer position. The Retirement and Non-Competition Agreement contains certain other rights and obligations, and the foregoing description of the agreement is qualified in its entirety by reference to the full terms of the agreement, which is filed as an exhibit to our Current Report on Form 8-K filed on December 12, 2016.

**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 2016.

# Certain Relationships and Related Party Transactions

## Agreements With Pershing Square Capital Management, L.P.

See "Proposal 1 – Election of Directors – Director Nomination Process – Investor Agreement Regarding Board Nominations" for details regarding the Investor Agreement entered into with Pershing Square on December 14, 2016. Concurrent with the Investor Agreement, we also entered into a Confidentiality Agreement allowing Pershing Square to receive non-public information regarding Chipotle, subject to specified confidentiality obligations.

Additionally, on February 3, 2017, we entered into a Registration Rights Agreement with Pershing Square. Pursuant to the Registration Rights Agreement, Pershing Square may make up to four requests that we file a registration statement to register the sale of shares of our common stock that Pershing Square beneficially owns, subject to the limitations and conditions provided in the Registration Rights Agreement. The Registration Rights Agreement also provides that we will file and keep effective, subject to certain limitations, a shelf registration statement covering shares of our common stock beneficially owned by Pershing Square, and also provides certain piggyback registration rights to Pershing Square. We would be responsible for the expenses of any such registration.

The registration rights provided in the agreement terminate as to any Pershing Square shareholder upon the earliest of (i) the date on which such shares are disposed of pursuant to an effective registration statement, (ii) the date on which such securities are sold pursuant to Rule 144, and (iii) such shareholder ceasing to beneficially own at least 5% of our outstanding common stock, provided such shareholder no longer has a representative serving on our Board, and is permitted to sell shares of common stock beneficially owned by such shareholder under Rule 144(b)(1) of the Securities Act. The Registration Rights Agreement also contains customary indemnification provisions.

The Investor Agreement, Confidentiality Agreement and Registration Rights Agreement contain various other obligations and provisions applicable to Chipotle and Pershing Square. The foregoing descriptions of the Investor Agreement, the Confidentiality Agreement and the Registration Rights Agreement are qualified in their entirety by reference to the full text of the Investor Agreement (including the form of Confidentiality Agreement included as an exhibit thereto), which is attached as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on December 19, 2016, and the Registration Rights Agreement, which is attached as Exhibit 10.11 to our Annual Report on Form 10-K filed with the SEC on February 7, 2017.

## Other Registration Rights

Prior to our initial public offering in 2006, certain of our current shareholders, including Steve Ells, our Chairman and Chief Executive Officer, Monty Moran, our former Co-Chief Executive Officer and former 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 2018 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 2018 annual meeting of shareholders pursuant to SEC Rule 14a-8 must be received by us no later than November 30, 2017, unless the date of our 2018 annual meeting is more than 30 days before or after May 25, 2018, 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 2018 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 25, 2018, and no later than the close of business on February 24, 2018, unless the date of the 2018 annual meeting is more than 30 days before or 60 days after May 25, 2018. If the date of the 2018 annual meeting is more than 30 days before or 60 days after May 25, 2018, we must receive the proposal or nomination no earlier than the 120$^{th}$ day before the meeting date and no later than the 90$^{th}$ 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 2018 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 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. We will promptly deliver a separate copy to you upon written or oral request.

## ATTENDANCE AT THE MEEETING

To attend the meeting, you must be a shareholder on the record date of March 27, 2017, and obtain an admission ticket in advance. Tickets will be available to registered and beneficial owners and to one guest accompanying each registered or beneficial owner. You can print your own tickets and you must bring them to the meeting to gain access. Tickets can be printed by accessing Shareholder Meeting Registration at *www.proxyvote.com* and following the instructions provided (you will need the control number included on your proxy card, voter instruction form or notice).

Requests for admission tickets will be processed in the order in which they are received and must be requested no later than 11:59 p.m. Eastern Time on May 24, 2017. Please note that seating is limited and requests for tickets will be accepted on a first-come, first-served basis.

On the day of the meeting, each shareholder will be required to present valid picture identification such as a driver's license or passport with their admission ticket, and you may be denied admission if you do not. Seating will begin at 7:30 a.m. local time and the meeting will begin at 8:00 a.m. Cameras (including cell phones with photographic capabilities), recording devices and other electronic devices will not be permitted at the meeting. You may be required to enter through a security check before being granted access to the meeting.

## MISCELLANEOUS

If you request physical delivery of these proxy materials, we will mail along with the proxy materials our 2016 Annual Report, including our Annual Report on Form 10-K for fiscal year 2016 (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/ Steve Ells
Chief Executive Officer and Director

March 30, 2017

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## MANAGEMENT TEAM

Steve Ells
*Founder and Chief Executive Officer*

Jack Hartung
*Chief Financial Officer*

Mark Crumpacker
*Chief Marketing and Development Officer*

Curt Garner
*Chief Digital and Information Officer*

## BOARD OF DIRECTORS

Steve Ells
*Chairman of the Board*

Albert S. Baldocchi
*Director*
*Independent Financial Consultant and Strategic Advisor*

Paul T. Cappuccio
*Director*
*Executive Vice President, General Counsel, Time Warner*

John S. Charlesworth*
*Director*
*President, Midwest Division, McDonald's Corp. (retired)*

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)*

Neil W. Flanzraich
*Lead Independent Director*
*Executive Chairman, Cantex Pharmaceuticals; private investor*

Stephen Gillett*
*Director*
*Senior Executive Leader at Google[x] and Advisor to Google Ventures*

Robin S. Hickenlooper
*Director*
*Senior Vice President, Corporate Development, Liberty Media*

Kimbal Musk
*Director*
*Entrepreneur and Co-Founder of the Kitchen*

Ali Namvar
*Director*
*Partner, Pershing Square Capital Management, L.P.*

Matthew Paull
*Director*
*Senior Vice President, Chief Financial Officer, McDonald's Corp. (retired)*

** - not standing for re-election at the 2016 annual meeting of shareholders*

## STOCK EXCHANGE LISTING

New York Stock Exchange
Symbol: CMG

## AUDITORS

Ernst & Young LLP | Denver, Colorado

## STOCK TRANSFER AGENT

*By phone:*
1-800-401-1957

*By mail:*
Wells Fargo Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

*Online:*
www.shareowneronline.com

*Stockholders may obtain copies of Chipotle's annual report on Form 10-K for the year ended December 31, 2016 (exclusive of exhibits), including our audited financial statements, as well as other reports we file with the SEC, at no cost on the investor relations page of our website at ir.chipotle.com, or by writing to the Corporate Secretary, Chipotle Mexican Grill, Inc., 1401 Wynkoop Street, Suite 500, Denver, CO 80202*

# A LOVE STORY

CHIPOTLE

In July, we launched A Love Story, a short film that's a parable of how the fast food industry has devolved over the years. In it, the moment young Ivan saw Evie, it was love at first sight. Needing money to ask her to a movie, Ivan starts innocently competing with Evie's food stand. The result devolves into a thirty-year-long fast food rivalry. Using every trick in the book, they unwittingly abandon their integrity to win customers. But when they can no longer recognize their monstrous creations, they ultimately discover what truly matters, their love for real food...and each other.

- Watch it at -

CHIPOTLE.COM/A-LOVE-STORY