# 2018 ANNUAL REPORT

## AND PROXY STATEMENT

### WIN TODAY AND CULTIVATE THE FUTURE

# DEAR FELLOW SHAREHOLDERS

The last year at Chipotle has been an exciting one. With a new leadership team led by Brian Niccol, new headquarters and new restaurants, the renewed energy is both tangible and invigorating. By returning focus to what makes Chipotle unique - great taste and real ingredients - we have reengaged with a passionate fan base that inspires us to continue cultivating a better world.

Our innovations, particularly with technology, will continue to expand our reach and improve the ease of access for consumers. Brian and his leadership team have already made strong headway in positioning Chipotle as not just a restaurant chain, but a purpose-driven brand. We know that deepening our relationship with consumers will take Chipotle to the next level.

Chipotle has always been an innovator and earned consumer loyalty for its desire to make a difference. We pioneered a movement that helped form the fast-casual industry as we know it today. We use real ingredients prepared fresh daily and make it easily accessible for many. Now, nearly three decades later, we continue to thrive because of these differences.

Chipotle was founded on the idea of cultivating a better world and it was imperative that the team doubled down on those efforts in 2018 to remind consumers of our longstanding commitment to always do the right thing. While we had challenges to overcome, Chipotle's food safety focus is unparalleled in the industry and we have implemented procedures that go beyond the standard to instill consumer confidence once again.

The results delivered in 2018 give us confidence that Chipotle is well on its way to building a culture of innovation and great execution that will drive sustainable long-term growth. We are excited about 2019 and believe Chipotle is in a great position to win today and create a bright future for our consumers, our employees, and our shareholders.

Thank you for your continued investment in Chipotle.

Sincerely,

Steve Ells
Executive Chairman

Neil Flanzraich
Lead Independent Director

# DEAR SHAREHOLDERS

As I close my first year as CEO of Chipotle, I'm excited to recap a number of milestones that we've hit in just twelve months. For one, we have completed our Restaurant Support Center moves to Newport Beach and Columbus, and we are seeing great results from the restructuring. While we are continuing to build out our staff and offices, the relocation has already sparked a new energy and vibrant culture that is vital at such a pivotal time in Chipotle's history.

We also have a full executive leadership team made up of best-in-class, accomplished individuals who are passionate about shaping Chipotle to be the ultimate purpose-driven company. I'm confident that this group will bring our purpose of Cultivating a Better World and our corporate values to life and take Chipotle to the next level.

This refresh has also established the groundwork for new goals. In 2018, we created the strategy to win today and cultivate the future and I'm pleased with the early success in these five focus areas:

1. Becoming a more culturally relevant and engaging brand that builds love and loyalty;
2. Digitizing and modernizing our restaurant experience to create a more convenient and enjoyable guest experience;
3. Running great restaurants with great hospitality and throughput;
4. Being disciplined and focused to enhance our powerful economic model; and
5. Building a great culture that can innovate and execute across digital, access, menu, and the restaurant experience.

In 2018, we launched a new marketing campaign, "For Real", that is focused on driving culture, driving the brand's point of difference and driving a purchase. By introducing "For Real", Chipotle is in the process of re-establishing its leadership in sourcing and serving fresh food with integrity that is cooked using classic cooking techniques. We know this combination results in better tasting food.

The last year was a tremendous year of growth for our digital business as digital sales grew 42.4% year-over-year and exceeded half a billion dollars. We removed points of friction with the installation of digital second make lines, mobile pick up shelves and the expansion of delivery in our app and through third parties. Chipotle restaurants are equipped to handle the demand of the modern consumer who demand unprecedented access, convenience and speed. We will build on this momentum with the national launch of Chipotle Rewards in 2019.

Our operations made meaningful progress in 2018 and it's appropriate that 2019 will be the "year of the General Manager (GM)." As a people-driven organization, we know the brand's success starts at the restaurant level and we are committed to creating a seamless in-restaurant experience. Our operators are focused on delivering world class food safety, GM stability and development, excellent throughput and delicious fresh food while delivering on our economic plan.

The foundation we've built reflects the values of everyone involved in this process – a culmination of work and support from the restaurant crew, farm partners, investors and support center. We are building a great culture of accountability and creativity. Our inclusive culture and diverse organization has the capability to execute with excellence, so we can capitalize on the tremendous growth opportunities ahead of us.

I am proud of how we moved our purpose of cultivating a better world forward while driving financial, organizational, and brand results in 2018 and I am confident 2019 will deliver more growth for our employees, partners, and shareholders.

Thank you for an unforgettable inaugural year.

Sincerely,

Brian Niccol
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, 2018**

**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** | **84-1219301** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |

| **610 Newport Center Drive, Suite 1300 Newport Beach, CA** | **92660** |
|---|---|
| **(Address of Principal Executive Offices)** | **(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

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

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

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

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

As of June 30, 2018, the aggregate market value of the registrant's outstanding common equity held by non-affiliates was $8.726 billion, based on the closing price of the registrant's common stock on June 29, 2018, 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 February 4, 2019, there were 27,659,270 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 2019 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, 2018.

# TABLE OF CONTENTS

**PART I**

Item 1. Business 1

Item 1A. Risk Factors 6

Item 1B. Unresolved Staff Comments 24

Item 2. Properties 25

Item 3. Legal Proceedings 25

Item 4. Mine Safety Disclosures 25

**PART II**

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 26

Item 6. Selected Financial Data 28

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 29

Item 7A. Quantitative and Qualitative Disclosure About Market Risk 37

Item 8. Financial Statements and Supplementary Data 39

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure 61

Item 9A. Controls and Procedures 61

Item 9B. Other Information 64

**PART III**

Item 10. Directors, Executive Officers and Corporate Governance 65

Item 11. Executive Compensation 65

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 65

Item 13. Certain Relationships and Related Transactions, and Director Independence 65

Item 14. Principal Accounting Fees and Services 65

**PART IV**

Item 15. Exhibits, Financial Statement Schedules 66

Item 16. Form 10-K Summary 69

Signatures 70

*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, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that 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, among others, statements about the potential impact of catering and delivery offerings and technology initiatives; statements regarding the effectiveness of our food safety systems and procedures; projections of comparable restaurant sales increases and sales trends we expect for 2019; estimates of restructuring and restaurant closure costs and accelerated depreciation to be recognized in 2019; forecasts of the number of restaurants we expect to open; forecasts of trends in general and administrative expenses, restaurant development costs, and other expenses for 2019; estimates of expected effective tax rates for the year; statements about possible repurchases of our common stock; projections of planned capital expenditures; 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 risks and uncertainties 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 uncertainties 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", "we", "us", or "our") operates Chipotle Mexican Grill restaurants, which feature a relevant menu of burritos, burrito bowls (a burrito without the tortilla), tacos, and salads. We are passionate about serving great food and providing a great guest experience, and we are a longtime leader and innovator in the food industry. When Steve Ells, founder and Executive Chairman, first opened Chipotle starting with a single restaurant in Denver, Colorado in 1993, the idea was simple: show that food served fast didn't have to be a typical "fast-food" experience. Using high-quality real ingredients, classic cooking techniques, and distinctive interior design, we brought features from the realm of fine dining to the world of quick-service restaurants. Over 25 years later, our devotion to seeking out the very best ingredients, raised with respect for animals, farmers, and the environment, remains at the core of our commitment to Food With Integrity. As of December 31, 2018, we operated 2,452 Chipotle restaurants throughout the United States, 37 international Chipotle restaurants, and two non-Chipotle restaurants.

## Business Strategy

We are committed to making our food more accessible to everyone while continuing to be a brand with a demonstrated purpose of cultivating a better world. Our strategy is to win today and cultivate the future by focusing on five key pillars which include:

- becoming a more culturally relevant and engaging brand that builds love and loyalty;
- digitizing and modernizing our restaurant experience to create a more convenient and enjoyable guest experience;
- running great restaurants with great hospitality and throughput;
- being disciplined and focused to enhance our powerful economic model; and
- building a great culture that can innovate and execute across digital, access, menu and the restaurant experience.

*Relevant Menu.* Our restaurants feature a relevant menu of burritos, burrito bowls, tacos and salads. In preparing our food, we employ classic cooking methods and 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. Our proteins include chicken, steak, carnitas (seasoned and braised pork), barbacoa (spicy braised and 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, and sautéed peppers and onions, to our entrees depending on each guest's request. We use various herbs, spices and seasonings to prepare our meats and vegetables. We also serve tortilla chips that are fried twice a day in each restaurant and seasoned with fresh lime juice and salt, with sides of hand mashed guacamole, salsas, or queso. 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, some in our restaurants and some with the same fresh ingredients in larger batches in commissaries.

*Food with Integrity.* Serving high quality food while still charging reasonable prices is critical to our purpose so that guests can enjoy wholesome food every day. We respect our environment and insist on preparing, cooking, and serving nutritious food made from natural ingredients and animals that are raised or grown with care. We spend time on farms and in the field to understand where our food comes from and how it is raised. We concentrate on the sourcing of each ingredient, and this has become a cornerstone of our continuous effort to improve the food we serve. The food we serve is made from just 51 ingredients that everyone can both recognize and pronounce. We're all about simple, fresh food without the use of artificial colors or flavors typically found in fast food — just genuine real ingredients and their individual, delectable flavors.

In all of our Chipotle restaurants, we endeavor to serve only meats that are raised in accordance with criteria we have 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 expect to continue to face challenges in doing so. For example, some of our restaurants periodically serve conventionally raised chicken or beef due to supply constraints for our Responsibly Raised brand meats, or stop serving one or more menu items due to additional supply constraints. When we become aware of such an issue, we clearly and specifically disclose this temporary change on signage in each affected restaurant so that guests can adjust their orders if they choose to do so.

We also seek to use 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. Some of the beans we serve are organically grown or grown using conservation tillage methods that improve soil conditions, reduce erosion, and help preserve the environment in which the beans are grown. We call these beans "transitional". Some of the other produce items we serve are organically grown as well. Our commitment to better ingredients also extends to the dairy products we serve. In 2018, all of the sour cream and shredded cheese served in our U.S. Chipotle restaurants was made with milk from cows 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 (excluding beverages) in U.S. Chipotle restaurants contain genetically modified organisms, or GMOs. While the meat and poultry we serve is not genetically modified, many of 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.

## Purchasing and Food Safety

*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 suppliers. We've

also sought to increase, where practical, the number of suppliers for our ingredients to help mitigate pricing volatility and supply shortages. In addition, we closely monitor 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 Unique to Our Business Strategy — Our Food With Integrity philosophy subjects us to risks*" in Item 1A. "Risk Factors."

*Quality Assurance and Food Safety*. We are committed to serving safe, high quality food. Our food safety and quality assurance teams work to ensure compliance with our food safety programs and practices, components of which include:

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

These and other food safety practices underscore our commitment to being a leader in food safety while continuing to serve high quality food that our guests love. Our food safety and quality assurance teams establish and monitor our quality and food safety programs and work closely with our suppliers to ensure our high standards are met throughout the supply chain. We maintain a limited list of approved suppliers, many of whom are among the top suppliers in the industry. In addition, we have a team approach where our training, operations, legal 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 intended to ensure that we not only continue to comply with applicable federal, state and local food safety regulations, but also establish Chipotle as an industry leader in food safety. To help achieve this goal, we have a Food Safety Advisory Council 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.

## Guest Experience and Operations

Serving great food, with great service in a safe, quick, clean and happy environment is always our highest priority, and we take pride in making the Chipotle experience exceptional. We invest in training to consistently deliver an outstanding guest experience, and in our facilities to improve the appearance of our restaurants and modernize tools. These investments enable faster throughput, better efficiency and a better team member experience in our restaurants. In 2018, we hired a Chief People Officer to support our approximately 73,000 team members. We believe creating an excellent guest experience starts with hiring great people and creating great teams.

*Restaurant Team*. Each restaurant typically has a general manager or Restaurateur (a high-performing general manager), an apprentice manager (in a majority of our restaurants), two or three hourly service managers, one or two hourly kitchen managers and an average of 22 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 team members so that each can work a variety of stations, allowing us to work efficiently during our busiest times, while giving our employees 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 guests throughout the day. In addition to the employees serving our guests at each restaurant, we also have a field support system that includes field leaders and team directors, as well as executive team directors who report to our Chief Restaurant Officer.

*Innovation*. We are prioritizing the development of technological and other innovations, such as digital/mobile ordering platforms, digital order pick-up shelves, digital order pick-up lanes we call "Chipotlanes", delivery and catering, that allow our guests to engage with us in whatever fashion is most convenient for them. By allowing our guests to order and receive their food in a variety of ways, we believe we can attract more guests and encourage them to choose us more frequently. In order to successfully deliver a great experience for more guests, we are emphasizing the optimization of second make lines and the ability to pay using Apple Pay or Android Pay for

digital/mobile orders. These initiatives allow us to fulfill catering or digital/mobile orders without disrupting throughput on our main service line. In fact, technological innovations can enhance the experience of other guests by helping to improve throughput for those who choose to dine in our restaurants. Recent digital ordering innovations have allowed us to increase digital order volumes to the highest levels we've ever achieved, and we believe continued improvements in these areas will allow us to further improve these results. Additionally, we have enhanced our data capabilities to allow us to better identify individual guests 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 seek to make it as convenient as possible for our guests to enjoy Chipotle when and how they like it. We are also testing new menu items. We have built a stage-gate process around innovation where we test, learn and iterate, so that when we roll out a new initiative, we are highly confident in the probability of success.

## Marketing

Our marketing program and philosophy shifted from a more promotionally driven, decentralized approach in 2017 to a more centrally driven model designed to generate higher consumer awareness and drive guests into our restaurants in 2018. Our ultimate marketing mission is to make Chipotle not just a food brand but a purpose driven lifestyle brand that is more visible, more engaging, and more relevant in culture. In October 2018, we launched the biggest quarterly brand campaign in our history with the "For Real" launch, reflecting our heritage and also reinforcing our differentiation of using responsibly sourced, real ingredients and real cooking techniques to make flavorful food that consumers both love and feel better about eating.

We utilize multiple marketing channels, including national television, digital marketing, social media, fundraising, events and sponsorships to reach consumers.

We have invested and will continue to invest in extensive customer research that will give us insight into our consumers in order to inform our business decisions, media, messaging, and innovation pipeline.

For a discussion of risks related to our marketing, see "*Risks Related to our Plans to Grow Our Sales and Profitability — Our marketing and advertising strategies may not be successful, or may pose risks that could adversely impact our business*" in Item 1A. "Risk Factors."

## 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, convenience, brand reputation, cleanliness, and ambience 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, online, catering, and delivery services. Among our main competitors are a number of multi-unit, multi-market Mexican food or burrito restaurant concepts, some of which are expanding nationally. In recent years, competition has increased significantly from restaurant formats like ours that serve higher quality food, quickly and at a reasonable price.

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. Meal kit delivery companies and other eat-at-home options also present some degree of competition for our restaurants.

Competition has made it more challenging to maintain or increase the frequency of customer visits, however we believe that we can differentiate ourselves with our purpose of cultivating a better world. 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 long-term success and growth strategy. As a result, we devote substantial time and effort to carefully evaluate each potential restaurant location. Our site selection process is led by our internal team of real estate managers and includes external real estate brokers with expertise in specific markets, as well as support from an internal real estate strategy and research group. We thoroughly assess 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.

For a discussion of risks related to our opening of new restaurants and expansion into new real estate types, see "*Risks Related to our Plans to Grow Our Sales and Profitability — Our new restaurants, once opened, may not be profitable, and may adversely impact the sales of our existing restaurants*" in Item 1A. "Risk Factors."

## Other Restaurant Concepts

Although in 2019 our focus will remain on thoughtfully growing the Chipotle brand, we believe that the fundamental principles on which our restaurants are based — finding better ingredients, preparing them using classic techniques in front of our guests, 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. We have invested in innovative concepts such as Pizzeria Locale, a fast-casual pizza restaurant that has two restaurants in Denver, Colorado. For a discussion of risks related to Pizzeria Locale and our possible investment in new concepts, see "*Risks Unique to Our Business Strategy — Pizzeria Locale and other new restaurant concepts may not contribute to our growth*" in Item 1A. "Risk Factors."

## Information Systems and Cyber Security

We use a variety of applications and systems to securely manage the flow of information within each of our restaurants and 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. Our digital ordering system allows guests to place orders online or through our mobile app and enables a delivery by a third party service with which we have entered into a delivery agreement. 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 in order to combat breaches, as well as provide improved control, security and scalability.

In April 2017, our information security team detected unauthorized activity on the network that supports payment processing for our restaurants, and immediately began an investigation with the help of leading computer security firms. The investigation detected malware designed to access data from payment cards used at the point-of-sale system at most of our restaurants. The malware searched for track data, which may include cardholder name, card number, expiration date, and internal verification codes; however, no other customer information was affected. We removed the malware from our systems and have been working to further enhance the security of our payment card network. See "*General Business Risks — We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential guest and employee information*" in Item 1A. "Risk Factors," as well as Note 13. "Commitments and Contingencies" in Item 8. "Financial Statements and Supplementary Data," for further discussion of the payment card security incident in 2017, related legal proceedings, and other risks associated with our information systems.

## Government Regulation and Environmental Matters

We are subject to various federal, state and local laws and regulations 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, healthcare laws, scheduling notification requirements and anti-discrimination and anti-harassment laws.

We are required to collect and maintain personal information about our employees, and we collect information about guests 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.

We are subject to the ADA and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.

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.

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 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 use of straws, utensils, and the types of packaging we can use in our restaurants.

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. Under the comprehensive U.S. health care reform law enacted in 2010, the Affordable Care Act, employers can be subjected to penalties for failure to provide a healthcare plan which is deemed to be both "affordable" and offers minimal essential coverage.

### Employees

As of December 31, 2018, we had about 73,000 employees, including about 5,100 salaried employees and about 67,900 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," "Food With Integrity," "Responsibly Raised," and a number of other marks and related designs and logos are U.S. registered trademarks of Chipotle. We have filed trademark applications for a number of additional marks in the U.S. as well. 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 additional countries. 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 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

The following risk factors could materially and adversely affect our business, financial condition and results of operations, and should be carefully considered in evaluating our business or making an investment decision involving our common stock. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies, including, but not limited to, overall economic and industry conditions. Additional risks and uncertainties not currently known to us or that we currently believe are not material also may materially and adversely affect our business, financial condition and results of operations.

### Risks Related to our Plans to Grow Our Sales and Improve Profitability

*Our sales and profitability growth depends on our ability to increase comparable restaurant sales, and there are material risks to our ability to do so.*

To grow our average restaurant sales, we will need to increase comparable restaurant sales, which 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 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 have seen in some periods over the past three years, 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 actual or rumored food safety incidents or other adverse publicity, including as described below under "*— We may continue to be negatively impacted by food safety incidents…*";
- 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, meal kit delivery services and other dining options;
- 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 guests or other reductions in average check in response to such price increases;
- executing our strategies effectively, including our marketing and branding strategies, our initiatives to expand the use of mobile and other digital ordering and increase sales from our delivery orders and catering options, our efforts to improve the overall quality of our guests' experience and increase the speed at which our crews serve each guest, 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 guests 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…*";
- weather, natural disasters and other factors limiting access to our restaurants; and
- changes in government regulation that may impact consumer 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 not achieve our targeted or expected comparable restaurant sales in the future, or may even experience declines in comparable restaurant sales in the future. Any 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.

***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, and we plan to open fewer restaurants in 2019 than we have in many prior years, which will adversely impact our sales growth rate.***

We had 2,491 restaurants in operation as of December 31, 2018, and we plan to increase the number of our restaurants significantly. In 2019 we plan to open between 140 and 155 new restaurants, which is fewer than the number of restaurants opened per year in many prior years. 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 rising interest rates;
- any shortages of construction labor or materials;
- 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 has been limited, and may present increased risks…*" and "*— Risks Unique to our Business Strategy — Pizzeria Locale and other new restaurant concepts may not contribute to our growth*";
- difficulty negotiating leases with acceptable terms;

- 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 and training new restaurant teams. We seek to hire only top performing employees, train them extensively in order to help ensure we provide an outstanding guest experience, and promote many general managers from our crew, all of 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 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 up our construction and leasing costs. 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. We expect this effect to be more pronounced through at least 2019, given our plan to decrease the number of new restaurants we open during the year as compared to the number of restaurants opened per year in many past years.

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.

If we are unable to open the number of new restaurants we plan to open, or if we decide to continue opening fewer new restaurants than we have in past years or delay or forego a significant number of planned restaurant openings, including due to any of the reasons set forth above, this would adversely affect our growth. Any resulting decrease in our sales growth rate or investor expectations for our future growth may result in declines in the price of our common stock.

***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 after the restaurant has built a customer base, and during which costs may be higher as we train new employees and adjust our food deliveries and preparation to sales volumes and peak-hour trends. 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 results similar to those of 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 and other adverse publicity, and as a result, the initial negative effect of new restaurants on our average restaurant sales over the past two years has been of greater magnitude than we have seen in the past. This trend may continue into 2019 and beyond.

We have also opened restaurants in nearly all major metropolitan areas across the U.S. New restaurants that we have recently opened, or may open, in existing markets may adversely impact sales in previously-opened restaurants in the same market, as guests 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. Alternatively, existing restaurants could also make it more difficult to build the customer base for newly-opened restaurants in the same market, and could limit our growth potential if we determine that one or more of our nearby restaurants makes an otherwise viable new restaurant site unattractive to us.

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 lower returns on our investment in such new restaurants.

Finally, our new restaurant development activity has 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. These types of sites may become more important to our restaurant growth strategy as we find fewer opportunities to open in traditional sites, given our past growth. Many of these site types may involve additional costs that we do not incur in our more traditional restaurant sites such as security costs, or marketing costs, which will adversely impact the profitability of restaurants in these types of sites. The risks related to building a customer base and managing development and operating costs in some or all of these types of trade areas or restaurant sites may also be more significant than in our traditional sites, which could result in unexpected negative impacts on our new restaurant operating results.

***Our marketing and advertising strategies may not be successful, or may pose risks that could adversely impact our business.***

In 2018, we hired a new Chief Marketing Officer and other senior marketing staff and introduced a new advertising campaign and media strategies, including increased use of television advertising. We intend to continue to invest in marketing and advertising strategies that we believe will attract guests or increase their connection with our brand. If these 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. Additionally, if our marketing and advertising strategies are not successful, we may be forced to engage in additional promotional activities to attract and retain guests, including buy-one get-one offers and other offers for free or discounted food, and any such additional promotional activities could adversely impact our profitability.

We also plan to continue to emphasize strategies such as mobile and other digital ordering, delivery orders, and catering offerings in an effort to increase overall sales. These efforts may not succeed to the degree we expect, or may result in unexpected operational challenges that adversely impact our costs or our brand reputation. We may also seek to introduce new menu items that may not generate the sales we expect.

In addition, some of our marketing has incorporated elements intended to encourage guests 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 guests or potential guests, the value of our brand may be eroded.

***We may continue to be negatively impacted by food safety incidents, and further instances of food-borne or localized illnesses associated with our restaurants would result in increased negative publicity and further adverse impacts on consumer perceptions of our brand.***

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 E. coli incident. As a result of these incidents and related publicity, our sales and profitability were severely impacted throughout 2016. In July 2017, cases of norovirus associated with a Chipotle restaurant in Sterling, Virginia had a further adverse impact on our sales, particularly throughout the mid-Atlantic and Northeast regions, and in August 2018, illnesses believed to be caused by c. perfringens bacteria from the food in one of our restaurants in Powell, Ohio also negatively impacted our sales. 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), increased the awareness of these incidents and negatively impacted perceptions of our restaurants and brand, notwithstanding the high volume of food-borne illness cases from other sources across the country every day.

Because of consumer 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—may have an even more significant negative impact on our sales and our ability to regain guests. Although we have followed industry standard food safety protocols in the past and have endeavored to continually enhance 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 avoidance of frozen ingredients. Additionally, no food safety protocols can completely eliminate the risk of food-borne illness in any restaurant, including as a result of possible failures by restaurant personnel or suppliers to follow food safety policies and procedures. As a result, our enhanced food safety protocols may not be successful in preventing illness incidents in the future. The risk of illnesses associated with our food might also increase in connection with an expansion of our delivery or catering businesses or other situations in which our food is transported and/or 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, both financially and otherwise, from any such illnesses is likely to be significant. All of these factors could have an adverse impact on our ability to attract and retain guests, which would in turn have a material adverse effect on our growth and profitability.

***Our ability to continue to expand our digital business, delivery orders and catering is uncertain, and these new business lines are subject to risks.***
For the year ended December 31, 2018, 10.9% of our revenue was derived from digital orders, which was up significantly from prior years, and during 2018 the percentage of revenue derived from digital orders grew from 8.9% in the first quarter to 12.9% in the fourth quarter. This growth rate may not be sustainable for even the short term, and if our digital business does not continue to expand it may be difficult for us to achieve our planned sales growth. We have also increased our efforts to promote delivery orders, which have also grown considerably. We rely on third party providers to fulfill delivery orders, and the ordering and payment platforms used by these third parties, or our mobile app or online ordering system, could be damaged or interrupted by technological failures, user errors, cyber-attacks or other factors, which may adversely impact our sales through these channels and could negatively impact our brand. Additionally, our delivery partners are responsible for order fulfillment and may make errors or fail to make timely deliveries, leading to customer disappointment that may negatively impact our brand. We also incur additional costs associated with using third party service providers to fulfil these digital orders. Moreover, the third party restaurant delivery business is intensely competitive, with a number of players competing for market share, online traffic, capital, and delivery drivers and other people resources. The third party delivery services with which we work may struggle to compete effectively, and if they were to cease or curtail operations or fail to provide timely delivery services in a cost-effective manner, or if they give greater priority on their platforms to our competitors, our delivery business may be negatively impacted. We have also introduced catering offerings on both a pick-up and delivery basis, and customers may choose our competitors' catering offerings over ours, be disappointed with their experience with our catering, or experience food safety problems if they do not serve our food in a safe manner, which may negatively impact us. Such delivery and catering offerings also increase the risk of illnesses associated with our food because the food is transported and/or served by third parties in conditions we cannot control.

Because all of these offerings are relatively new, it is difficult for us to anticipate the level of sales they may generate. That may result in operational challenges, both in fulfilling orders made through these channels and in operating our restaurants as we balance fulfillment of these orders with service of our traditional in-restaurant guests as well. Any such operational challenges may negatively impact the customer experience associated with our digital, delivery or catering orders, the guest experience for our traditional in-restaurant business, or both. These factors may adversely impact our sales and our brand reputation.

***Our expansion into international markets has been limited, and may present increased risks due to lower awareness of our brand, our unfamiliarity with those markets and other factors.***
As of December 31, 2018, 37 of our restaurants were located outside of the U.S., with 23 in Canada, seven in the United Kingdom, six in France and one in Frankfurt, Germany. Our focus for the present time remains on expanding in North America, which limits our near-term growth potential.

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 international markets, and our average restaurant sales and/or transaction counts may be lower in these international 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 U.S. markets. Specifically, due to lower consumer familiarity with the Chipotle brand, differences in consumer 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. To build brand awareness in international markets, we may need to make greater investments in advertising and promotional activity than we originally planned or than we need to for a new restaurant in a U.S. market, which could negatively impact the profitability of our operations in those international markets.

We may also find it more difficult in international markets to hire, train and keep top performing employees who can successfully deliver excellent guest 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 those in the U.S., 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. For example, a new privacy regulation in the European Union called the General Data Protection Regulation, or GDPR, became effective in May 2018 and requires companies to meet new requirements regarding the handling of personal data, and failure to meet GDPR requirements could result in penalties up to 4% of our worldwide revenue of the prior financial year. 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.

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

As described elsewhere in this report, our plans call for a significant number of new restaurants, new employees, new suppliers, and new systems to support our business strategies. 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 improve restaurant operations, including food safety, and develop additional top performing general managers more quickly. We may not respond quickly enough to the changing demands that our growth and transformation impose on management, crew and existing infrastructure, and changes to our operating structure may result in increased costs or inefficiencies that we cannot currently anticipate. 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, online, catering and delivery services. Among our main competitors are a number of multi-unit, multi-market Mexican food or burrito restaurant concepts, some of which are expanding nationally. In recent years, competition has also increased significantly from restaurant formats like ours that serve higher quality food quickly and at a reasonable price. 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 consumers who want higher-quality food, as well as from convenience stores, cafeterias and other dining outlets. Meal kit delivery companies and other eat-at-home options also present some degree of competition for our 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

guests who frequent our established restaurants begin to visit a newly-opened restaurant instead.

We believe that competition from all of the foregoing has made it more challenging to maintain or increase the frequency of our guest visits, and that those competitive pressures will continue or increase in the future. 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. These and other competitors may attract guests with, 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.

Additionally, although we continue to believe that Chipotle can differentiate itself with our commitment to higher-quality and responsibly-sourced ingredients, 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 and make it more difficult for us to compete. 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.

Several of our competitors also compete by offering menu items that are specifically identified as low in carbohydrates, better for guests 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.

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, training and retaining top performing employees.***

We rely on our restaurant employees to provide an outstanding guest experience, and as a result we believe good managers and crew and outstanding training are key parts of our success. Delivering excellent guest experiences depends substantially on the energy and skills of our employees and our ability to hire, train, 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 guest experiences, which may adversely impact our sales. Our failure to find and keep enough high-caliber employees could also delay planned restaurant openings, which would slow our growth.

In addition, labor is a primary component of our operating costs. Increased labor costs due to factors such as competition for workers and labor market pressures, increased minimum wage requirements, increased healthcare costs, increased costs to apply with new and/or changing regulations, paid sick leave or vacation accrual mandates, or changes in our restaurant staffing structure have and may continue to adversely impact our operating costs. Many companies, both in the restaurant industry and in other industries with which we compete for employees, have implemented company-wide or targeted increases in starting wages or other enhancements to their compensation and benefit programs, and we may need to act similarly to continue to attract employees. During 2018 we increased benefits to salaried and hourly managers, including additional paid leave, short term disability coverage, and a one-time cash bonus to all restaurant employees, which increased our labor costs. These enhancements, and any further increases in labor costs associated with additional market pressures on wages or other factors, will adversely impact our operating results.

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 2019 due to continued volatility and uncertainty in our sales trends. Additional taxes or requirements to incur additional employee benefits expenses could also adversely impact our labor costs.

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. Efforts to negotiate with suppliers to limit any such price increases may not be successful, or may adversely impact our relationship with suppliers.

Additionally, a substantial volume of produce items are grown in Mexico and other countries, and a significant portion 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, including any new or increased export duties, tariffs or taxes, or other changes in trade or tax policy as a result of retaliation by the countries from which we source our ingredients in response to such changes in U.S. trade or tax policy, or any localized labor disturbances or political unrest in the areas from which we source our ingredients, 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. 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 have a particularly adverse effect on 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 safety scares could adversely affect consumer 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, or listeria to certain produce items or other ingredients have caused us to temporarily suspend serving some ingredients in our foods or to otherwise alter our menu, or have resulted in consumers avoiding certain food 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 and could in the future have an adverse effect on the availability of affected ingredients. A decrease in guest 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 guests who do not accept those changes, and may not be able to attract enough new guests to generate sufficient revenue to make our restaurants profitable. Guests 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 consumer 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 are not 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 and may not meet analyst and investor expectations in the future. 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 guest perceptions of our restaurant operations. To the extent guests 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 guests may be adversely impacted and our sales may decline or recover more slowly than they otherwise would have. Furthermore, even the most advanced food safety measures cannot eliminate all food safety risks from a restaurant environment. For risks related to any future food safety incidents associated with our restaurants, see "*— Risks Related to our Plans to Grow Our Sales and Profitability — We may continue to be negatively impacted by food safety incidents…*"

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

Our ability to provide the experience our guests expect depends in part on our ability to acquire ingredients that meet our specifications from reliable suppliers. Unavailability of ingredients caused by unanticipated demand, problems in production or distribution, food contamination, 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. 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 guests 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 guests 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 Unique to Our 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.

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

Changes in consumer 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, including in response to dietary concerns such as preferences regarding calories, sodium, carbohydrates, fat, consumption of animal products or other nutritional considerations. 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 consumers 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 beginning in the fourth quarter of 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 political or economic unrest in the U.S.

and/or abroad. 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 consumer preferences and trends, we may lose guests 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 Unique to Our Business Strategy

*We may not persuade consumers of the benefits of paying our prices for higher-quality food.*
Our success depends in large part on our ability to persuade consumers 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 consumers about the quality of our food, and consumers 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 may be more difficult for us to persuade the public about the quality and value of our food following any food-borne illnesses associated with our restaurants, as further described above under "*Risks Related to our Plans to Grow Our Sales and Profitability — We may continue to be negatively impacted by food safety incidents…*" If consumers 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 restructuring activities will increase our expenses, may not be successful, and may adversely impact employee hiring and retention.***
During 2018, we opened a new headquarters office in Newport Beach, California, consolidated certain corporate administrative functions into our existing office in Columbus, Ohio, closed a corporate office in New York, New York, and commenced the closure of our previous headquarters office in Denver, Colorado. As a result of the foregoing actions, we incurred corporate restructuring costs totaling $42.6 million in the second, third and fourth quarters of 2018, and expect to incur additional corporate restructuring costs in 2019 aggregating approximately $5 million to $15 million. We also closed/relocated 45 Chipotle restaurants and five Pizzeria Locales throughout the country during 2018, and as a result we incurred restaurant exit costs of approximately $35.8 million in the second, third and fourth quarters of 2018, and expect to incur additional restaurant exit costs in 2019 aggregating approximately $1 million to $7 million. These expenses adversely impacted our results of operations during 2018 and reduced our cash position and will continue to adversely impact our results of operation and cash position. Additionally, the amount of the restructuring expenses we expect to incur in 2019, as well as our ability to achieve the anticipated benefits of our restructuring activities, are subject to assumptions and uncertainties. There is no assurance that we will successfully implement or fully realize the anticipated benefits of our restructuring activities. If we fail to realize the anticipated benefits from these measures, or if we incur charges or costs in amounts that are greater than anticipated, our financial condition and operating results may be adversely affected to a greater degree than we currently expect.

In addition, the relocation of our headquarters office functions has necessitated that we hire and train a significant number of new employees to replace corporate support employees who did not continue with us as a result of the relocation. Hiring and training significant numbers of support team employees could distract existing employees, decrease employee morale, make it more difficult to retain and hire new talent, and harm our reputation. This turnover and any resulting distraction could negatively impact the overall performance of our corporate support teams, resulting in inefficiencies, higher short- or long-term costs, failures in risk management or compensating controls, or decreased productivity in numerous support or administrative functions. The costs associated with hiring new talent may also be more significant than we currently expect. As a result of these or other similar risks, our business, results of operations and financial condition may be adversely affected.

***A substantial portion of our senior management team is new, which may pose challenges, and our success may depend on the continued service and availability of key personnel.***
Brian Niccol joined us as Chief Executive Officer in March 2018, and we added a new Chief Marketing Officer, Chris Brandt, and our first Chief People Officer, Marissa Andrada, in April 2018; added our first Chief Legal Officer and General Counsel, Roger Theodoredis, in October 2018; and added a new Chief Development Officer, Tabassum Zalotrawala, in December 2018. These officers have, in turn, hired a substantial number of new direct reports, and as a result, our senior management team is relatively new and may face challenges working together as a unit, aligning on strategic priorities and objectives, or integrating their new teams with one another. These challenges may be exacerbated by our ongoing restructuring efforts as further described above under "— *Our restructuring activities will increase our expenses, may not be successful, and may adversely impact employee hiring and retention*." Our Board of Directors has experienced recent changes as well, including the addition of Mr. Niccol, as well as our founder and former Chief Executive Officer, Steve Ells, assuming the position of Executive Chairman, and these changes may add to the challenges inherent in assimilating a new management team. Failure to meet these challenges successfully may adversely impact our operations, business results or long-term growth prospects.

Additionally, Jack Hartung, our Chief Financial Officer, has served with us since early in our company's history and much of our growth, as well as the development of our restaurant economic model, has occurred under his direction. Curt Garner, who joined us as Chief Information Officer in November 2015, has had a key role in developing and executing our digital and 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. Scott Boatwright, who joined us as Chief Restaurant Officer in May 2017, has led our recent efforts to improve the guest experience in our restaurants, which we also believe will be critical in attracting new and lapsed guests. And Laurie Schalow, who joined us as Chief Communications Officer in August 2017, has been responsible for media relations efforts and other initiatives to improve public perceptions of our brand. Each of our executive officers is an at-will employee, and any turnover among our executive officers may disrupt our progress in implementing our business strategies or otherwise negatively impact our growth prospects or future operating results. Additionally, if our company culture or operations were to deteriorate following any additional changes in leadership, we may be adversely impacted as well.

***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 consumer 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. For example, in 2015 we identified a pork supplier that was not meeting our standards and suspended purchases of pork from the 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, which adversely impacted sales. 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 consumer 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 guests 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 impact guest traffic at our restaurants and damage our brand. 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 consumers 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 consumers 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 consumer 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 also make it more difficult for us to differentiate Chipotle and our restaurants, either which could adversely impact our operating results.

***Pizzeria Locale 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 guest, 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 that, until late 2018, operated seven fast casual Pizzeria Locale restaurants in Denver, Colorado, Kansas City, Missouri and Cincinnati, Ohio. ShopHouse and TastyMade were not able to achieve a level of sales and profitability that made them attractive to us for future investment, and 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, and closed all of the ShopHouse locations in the first half of 2017. We closed TastyMade in 2018, and also closed the five Pizzeria Locale restaurants outside of Denver in 2018 as part of our program to close underperforming restaurants throughout the country. Furthermore, Pizzeria Locale has significantly lower brand awareness, lower sales and less operating experience than most Chipotle restaurants, and may also not achieve restaurant economics that make the concept attractive for further investment in the future. There are also numerous competitors in the pizza market, including a number of large and well-known brands, and a number of other companies or individuals in the restaurant industry have recently opened or invested in fast-casual pizza concepts.

Notwithstanding 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 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 Pizzeria Locale, which may limit our overall growth potential over the long term. Conversely, any expansion of Pizzeria Locale or investments in other restaurant concepts might distract our management, which could have an adverse impact on our core Chipotle business.

## 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, state and local laws and regulations 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, healthcare laws, scheduling notification requirements and anti-discrimination and anti-harassment laws. Complying with these laws and regulations subjects us to substantial expense and can be cumbersome, and can also expose us to liabilities from claims of 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 have increased our labor costs and may have a further negative impact on our labor costs in the future. In addition, in November 2017, the Fair Value Workweek legislation was implemented in New York City, which requires fast food employers to provide employees with specified notice in scheduling changes and pay premiums for changes made to employees' schedules, amongst other requirements. Similar legislation may be enacted in other jurisdictions in which we operate in as well, and could result in increased labor costs. Changes in U.S. healthcare laws could also adversely impact us if they result in significant new welfare and benefit costs or increased compliance expenses.

We also are required to comply with work authorization verification requirements. 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. 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 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. 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. On the other hand, in the event we erroneously 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. 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.

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.

*Privacy/Cybersecurity*

We are required to collect and maintain personal information about our employees, and we collect information about guests 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. Significant new privacy regulation in the European Union is further described above under "— *Risks Related to our Plans to Improve Our Sales and Profitability and Restore our Economic Model — Our expansion into international markets has been limited, and may present increased risks due to lower consumer awareness of our brand, our unfamiliarity with those markets and other factors*." At the same time, we are relying increasingly on cloud computing and other technologies that result in third parties holding significant amounts of guest 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 or those of our delivery partners, 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 guest and employee information."

*Americans with Disabilities Act and Similar State Laws*
We are subject to the 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. Regulations requiring that chain restaurants include calorie information on their menu boards and make other nutritional information available went in place across the U.S. in May 2018, and states and localities have also proposed or adopted regulation of or taxes on certain beverage products, kids' meals, and other food products or practices. These requirements may increase our expenses, change guest buying habits in a way that adversely impacts our sales, or subject us to liability if we make errors in complying with the requirements.

*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 use of straws, utensils, and the types of packaging we can use in our restaurants. Restrictions on the use of certain materials in our restaurants may subject us to increased costs for paper, packaging and other non-food items. In addition, although we have not conducted a comprehensive environmental review of our properties or operations, investigations of some of our properties has identified contamination caused by third-party operations. While 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 we could be held liable under certain environmental laws 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. 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.

*Healthcare Regulation*
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. Under the comprehensive U.S. health care reform law enacted in 2010, the Affordable Care Act, employers can be subjected to penalties for failure to provide a healthcare plan which is deemed to be both "affordable" and offers minimal essential coverage. We have incurred fines associated with this regulation in the past, and future costs associated with these healthcare requirements cannot be determined with certainty, but may have a material adverse effect on our financial statements.

*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 an ongoing government investigation into food safety incidents and related compliance measures, as described in Note 13. "Commitments and Contingencies" in our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data." We also have received numerous claims from guests who were or claim to have been impacted by food safety incidents associated with our restaurants, and a number of those claimants have filed lawsuits against us. We are cooperating in the government investigation and with many of the guests impacted by these incidents, but will continue to incur significant legal and other costs in doing so. We have also been sued in two separate shareholder class action lawsuits in connection with declines in our stock price in the wake of food safety incidents, and defending these lawsuits may subject us to significant additional legal expenses. Additionally, the liabilities from guest 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 heighten consumer awareness of our past food safety incidents or otherwise negatively impact perceptions of our brand, which may hamper our ability to increase our sales.

***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 guests 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 and other 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 two shareholder class action lawsuits, each as described elsewhere in this report, including in Note 13. "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 guest and employee information.***

We accept electronic payment cards for payment in our restaurants. During 2018, approximately 76% 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 April 2017, our information security team detected unauthorized activity on the network that supports payment processing for our restaurants, and the ensuing investigation detected malware designed to access payment card data from cards used at point-of-sale devices at most of our restaurants, primarily in the period from March 24, 2017 through April 18, 2017. We removed the malware from our systems and continue to work to enhance our security measures, including a planned implementation of new payment processing technology in substantially all of our restaurants during 2019. However, we expect to be subject to payment card network assessments and may incur regulatory fines or penalties, for which our insurance coverage is limited, and as a result, we recorded a $30 million estimated liability, of which approximately $29 million remained in accrued liabilities as of December 31, 2018. We may ultimately be subject to liabilities greater than or less than the amount accrued. See Note 13. "Commitments and Contingencies" included in Item 8. "Financial Statements and Supplementary Data," for further discussion of potential liabilities and pending litigation filed against us in connection with this incident.

We may be subject to additional lawsuits or other proceedings in the future relating to the 2017 incident or any future incidents in which payment card data may have been compromised. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

We also are required to collect and maintain personal information about our employees, and we collect information about guests 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. For example, a new privacy regulation in the European Union called GDPR, became effective in May 2018 and requires companies to meet new requirements regarding the handling of personal data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet GDPR requirements could result in penalties of up to 4% of worldwide revenue. Similarly, the California Consumer Privacy Act is due to take effect January 1, 2020, and will require our instituting additional new processes and protections.

At the same time, we are relying increasingly on cloud computing and other technologies that result in third parties holding significant amounts of guest 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 by these types of security breaches or regulatory violations, which could impair our sales or ability to attract and keep qualified employees.

***If we experience a significant failure in or interruption of certain key information technology systems, our business could be adversely impacted.***

We use a variety of applications and systems to securely manage the flow of information within each of our restaurants as well as our centralized corporate infrastructure, and to administer a number of significant business functions. 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. Our restaurant IT 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. The point-of-sale system records sales transactions, receives out of store orders, and authorizes, batches, and transmits credit card transactions. It 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 ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these and other systems, and our operations depend substantially on the availability of our point-of-sale system and related networks and applications.

These systems may be vulnerable to attacks or outages from security breaches, viruses and other disruptive problems, as well as from physical theft, fire, power loss, telecommunications failure or other catastrophic events. Any failure of these systems to operate effectively, whether from security breaches, maintenance problems, upgrades or transitions to new platforms, or other factors could result in interruptions to or delays in our restaurant or other operations, adversely impacting the restaurant experience for our guests or negatively impacting our ability to manage our business. We plan major hardware upgrades and systems implementations during 2019 that will encompass all of our restaurants, which may increase the likelihood of a systems outage or malfunction negatively impacting our business. If our information technology systems fail and our redundant systems or disaster recovery plans are not adequate to address such failures, or if our business interruption insurance does not sufficiently compensate us for any losses that we may incur, our revenues and profits could be reduced and the reputation of our brand and our business could be materially adversely affected. In addition, remediation of any problems with our systems could result in significant, unplanned expenses.

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

We depend significantly on consumers' perception of and connection to our brand. In addition to the damage to our reputation from well-publicized food safety incidents as described elsewhere in this report, we may experience negative publicity from time to time relating to food quality, guest 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, guest 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 regard to the food safety issues that have impacted us might have the effect of continuing or increasing consumer awareness of the issue.

The adverse impact of negative publicity on consumers' 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 guest experience we can offer and our operations generally, and may increase our labor costs as well.

***Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business.***

There has been a widespread and dramatic increase in the use of social media platforms that allow users to access a broad audience of consumers and other interested persons. The availability of information on social media can be virtually immediate, as can its impact, and users of many social media platforms can post information without filters or checks on the accuracy of the content posted. Adverse information concerning our restaurants or brand, whether accurate or inaccurate, may be posted on such platforms at any time and can quickly reach a wide audience. The resulting harm to our reputation may be immediate,

without affording us an opportunity to correct or otherwise respond to the information, and it is challenging to monitor and anticipate developments on social media in order to respond in an effective and timely manner. As a result, social media may exacerbate the risks described above under "*— Negative publicity relating to our restaurants or our company could adversely impact our reputation, which may significantly harm us.*"

In addition, although search engine marketing, social media and other new technological platforms offer great opportunities to increase awareness of and engagement with our restaurants and brand, our failure to use social media effectively in our marketing efforts may further expose us to the risks associated with the accelerated impact of social media. Many of our competitors are expanding their use of social media and the social media landscape is rapidly evolving, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance, and we may not do so effectively. A variety of additional risks associated with our use of social media include the possibility of improper disclosure of proprietary information, exposure of personally identifiable information of our employees or guests, fraud, or the publication of out-of-date information, any of which may result in material liabilities or reputational damage. Furthermore, any inappropriate use of social media platforms by our employees could also result in negative publicity that could damage our reputation, or lead to litigation that increases our costs.

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

We maintain various insurance policies for employee health, workers' 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 workers' 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, and any such uninsured losses 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 brand 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, whether in print, on the internet or in other media, the value of our brands may be harmed, which could have a material adverse effect on our business. 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 guest visits, including as a result of perceptions about our brand, competition, changes in consumer confidence or discretionary spending, and other factors listed in this "Risk Factors" section;

- additional negative publicity about the occurrence of food-borne illnesses, the ingredients we use, or other problems at our restaurants whether as a result of actions within our control or those outside of our control such as those by our delivery partners;
- fluctuations in supply costs, particularly for our most significant food items;
- labor availability and wages of restaurant management and crew, as well as temporary fluctuations in labor costs as a result of operational changes or other factors;
- increases in marketing or promotional expenses as we introduce new marketing programs and strategies, or increases pending on existing marketing programs in an effort to drive sales;
- our ability to raise menu prices without adversely impacting guest 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;
- litigation, settlement costs and related legal expense;
- tax expenses, impairment charges and non-operating costs;
- variations in general economic conditions, including the impact of declining interest rates on our interest income;
- increases in infrastructure 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 2019, as analyst and investor expectations for continued improvements in our business results may be higher than the level of results we 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 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 the recent past as a result of adverse publicity events. 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.***

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, which could adversely affect the price of our common stock.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

As of December 31, 2018, there were 2,491 restaurants operated by Chipotle and our consolidated subsidiaries, 2,489 of which were Chipotle restaurants. The table below sets forth the locations (by state or country) of all restaurants in operation.

| | |
|---|---|
| Alabama | 14 |
| Arizona | 80 |
| Arkansas | 6 |
| California | 412 |
| Colorado | 77 |
| Connecticut | 23 |
| Delaware | 8 |
| District of Columbia | 19 |
| Florida | 160 |
| Georgia | 51 |
| Idaho | 4 |
| Illinois | 139 |
| Indiana | 36 |
| Iowa | 10 |
| Kansas | 26 |
| Kentucky | 18 |
| Louisiana | 9 |
| Maine | 5 |
| Maryland | 91 |
| Massachusetts | 56 |
| Michigan | 36 |
| Minnesota | 63 |
| Missouri | 38 |
| Mississippi | 1 |
| Montana | 3 |
| Nebraska | 9 |
| Nevada | 27 |
| New Hampshire | 8 |
| New Jersey | 64 |
| New Mexico | 8 |
| New York | 149 |
| North Carolina | 62 |
| North Dakota | 1 |
| Ohio | 180 |
| Oklahoma | 12 |
| Oregon | 31 |
| Pennsylvania | 86 |
| Rhode Island | 8 |
| South Carolina | 20 |
| Tennessee | 22 |
| Texas | 205 |
| Utah | 11 |
| Vermont | 1 |
| Virginia | 101 |
| Washington | 39 |
| West Virginia | 5 |
| Wisconsin | 19 |
| Wyoming | 1 |
| Canada | 23 |
| France | 6 |
| Germany | 1 |
| United Kingdom | 7 |
| Total | 2,491 |

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, 2018, we had 1,605 end-cap locations, 398 free-standing units, 348 in-line locations, and 140 other locations. The average restaurant size is about 2,500 square feet and seats about 56 people. Many of our restaurants also feature outdoor patio space.

Our main office is located at 610 Newport Center Drive, Suite 1300, Newport Beach, CA 92660 and our telephone number is (949) 524-4035. 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 Note 11. "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 13. "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 STOCK, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the symbol "CMG."

As of January 24, 2019, there were approximately 914 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 2018.

| | 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 | 8,705 | $446.07 | 8,705 | $99,100,835 |
| *Purchased 10/1 through 10/31* | | | | |
| November | 37,178 | $475.95 | 37,178 | $81,405,932 |
| *Purchased 11/1 through 11/30* | | | | |
| December | 54,715 | $435.98 | 54,715 | $57,551,285 |
| *Purchased 12/1 through 12/31* | | | | |
| Total | 100,598 | $ 451.62 | 100,598 | $57,551,285 |

(1) Shares were repurchased pursuant to the $100 million repurchase programs announced on October 24, 2017 and April 25, 2018.

(2) This column does not include an additional $100 million in authorized repurchases announced on February 6, 2019. Each repurchase program has no expiration date. Authorization of repurchase programs may be modified, suspended or discontinued at any time.

## Dividend Policy

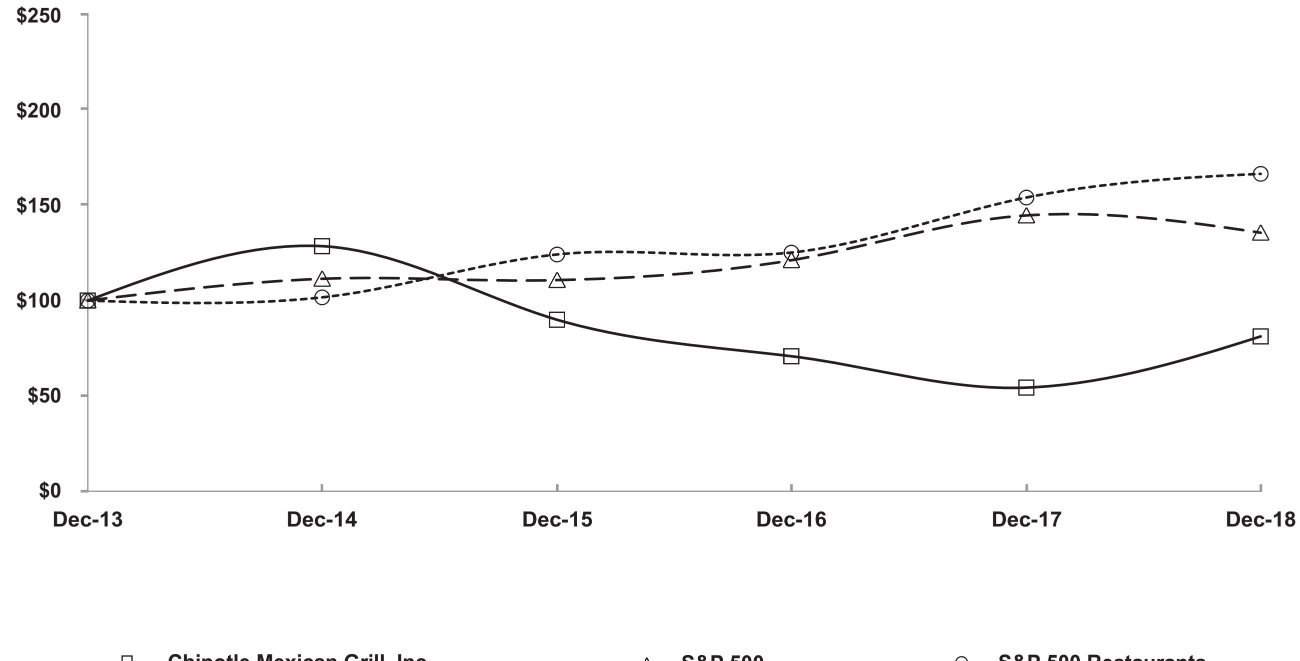
We are not required to pay any dividends and have not declared or paid any cash dividends on our common stock. We intend to continue to retain earnings for use in the operation and expansion of our business and to repurchase shares of common stock (subject to market conditions), and therefore do not 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, 2013 through December 31, 2018 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, 2013. 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 or the Exchange Act, 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 500 Restaurant Index




*$100 invested on 12/31/13 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 (dollar and share amounts in thousands, except per share data).

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **Statement of Income:** | | | | | |
| Revenue | $4,864,985 | $4,476,412 | $3,904,384 | $ 4,501,223 | $ 4,108,269 |
| Food, beverage and packaging costs | 1,600,760 | 1,535,428 | 1,365,580 | 1,503,835 | 1,420,994 |
| Labor costs | 1,326,079 | 1,205,992 | 1,105,001 | 1,045,726 | 904,407 |
| Occupancy costs | 347,123 | 327,132 | 293,636 | 262,412 | 230,868 |
| Other operating costs | 680,031 | 651,644 | 641,953 | 514,963 | 434,244 |
| General and administrative expenses | 375,460 | 296,388 | 276,240 | 250,214 | 273,897 |
| Depreciation and amortization | 201,979 | 163,348 | 146,368 | 130,368 | 110,474 |
| Pre-opening costs | 8,546 | 12,341 | 17,162 | 16,922 | 15,609 |
| Loss on disposal of assets | 66,639 | 13,345 | 23,877 | 13,194 | 6,976 |
| Total operating expenses | 4,606,617 | 4,205,618 | 3,869,817 | 3,737,634 | 3,397,469 |
| Income from operations | 258,368 | 270,794 | 34,567 | 763,589 | 710,800 |
| Interest and other income, net | 10,068 | 4,949 | 4,172 | 6,278 | 3,503 |
| Income before income taxes | 268,436 | 275,743 | 38,739 | 769,867 | 714,303 |
| Provision for income taxes | (91,883) | (99,490) | (15,801) | (294,265) | (268,929) |
| Net income | $ 176,553 | $ 176,253 | $ 22,938 | $ 475,602 | $ 445,374 |
| Earnings per share | | | | | |
| Basic | $ 6.35 | $ 6.19 | $ 0.78 | $ 15.30 | $ 14.35 |
| Diluted | $ 6.31 | $ 6.17 | $ 0.77 | $ 15.10 | $ 14.13 |
| Weighted average common shares outstanding | | | | | |
| Basic | 27,823 | 28,491 | 29,265 | 31,092 | 31,038 |
| Diluted | 27,962 | 28,561 | 29,770 | 31,494 | 31,512 |

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **Balance Sheet Data:** | | | | | |
| Total current assets | $ 814,794 | $ 629,535 | $ 522,374 | $ 814,647 | $ 859,511 |
| Total assets | $2,265,518 | $2,045,692 | $2,026,103 | $2,725,066 | $ 2,527,317 |
| Total current liabilities | $ 449,990 | $ 323,893 | $ 281,793 | $ 279,942 | $ 245,710 |
| Total liabilities | $ 824,179 | $ 681,247 | $ 623,610 | $ 597,092 | $ 514,948 |
| Total shareholders' equity | $ 1,441,339 | $ 1,364,445 | $1,402,493 | $ 2,127,974 | $2,012,369 |

# 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. See "Cautionary Note Regarding Forward-Looking Statements." Factors that might cause such differences include those described in Item 1A. "Risk Factors" and elsewhere in this report.*

## Overview

As of December 31, 2018, we operated 2,452 Chipotle restaurants throughout the United States, 37 international Chipotle restaurants, and two non-Chipotle restaurants. We are committed to making our food more accessible to everyone while continuing to be a brand with a demonstrated purpose.

## 2018 Financial and Operational Highlights

*Sales Trends.* Average restaurant sales were $2.004 million for the year ended December 31, 2018, an increase from $1.940 million for the year ended December 30, 2017. We define average restaurant sales as the average trailing 12-month sales for restaurants in operation for at least 12 full calendar months.

Comparable restaurant sales increased 4.0% for the full year 2018 and increased 6.1%, which included a 2% increase in comparable restaurant transactions, for the three months ended December 31, 2018. Comparable restaurant sales and comparable restaurant transactions represent the change in period-over-period sales or paid transactions for restaurants in operation for at least 13 full calendar months. We expect our full year 2019 comparable restaurant sales increases to be in the mid-single digit range.

We continue to invest in improving our digital platforms and equipping select restaurants with an upgraded second make line dedicated to fulfilling out-of-restaurant orders. Sales from out-of-restaurant orders, including delivery orders, increased 260 basis points to 10.9% of revenue for the full year 2018, an increase from 8.3% of revenue for the full year 2017.

*Restaurant Operating Costs.* During the full year 2018, our restaurant operating costs (food, beverage and packaging; labor; occupancy; and other operating costs) as a percentage of revenue decreased 180 basis points to 81.3% compared to the full year 2017. The decrease was primarily due to comparable restaurant sales increases combined with lower marketing and promotional expenses, partially offset by wage inflation at the crew level.

*Corporate Restructuring.* During 2018, we opened a new headquarters office in Newport Beach, California, consolidated certain corporate administrative functions into our existing office in Columbus, Ohio, closed a corporate office in New York, New York, and commenced the closure of our previous headquarters office in Denver, Colorado. All affected employees were either offered an opportunity to continue in the new organization or were offered a severance package. We expect to incur total corporate restructuring costs, including costs already incurred, aggregating approximately $48 million to $58 million including (i) employee severance and other employee transition costs of approximately $8 million to $10 million; (ii) recruitment and relocation costs of approximately $12 million to $14 million; (iii) lease termination and other office closure costs of approximately $17 million to $22 million; and (iv) third-party and other costs of approximately $11 million to $12 million. We recognized a total of $42.6 million of the foregoing costs during 2018, and expect to incur additional corporate restructuring costs into 2019 aggregating approximately $5 million to $15 million. For additional information, please see Note 5. "Corporate Restructuring Costs" in the notes to the consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" as well as "*Risks Unique to Our Business Strategy — Our restructuring activities will increase our expenses, may not be successful, and may adversely impact employee hiring and retention*" in Item 1A. "Risk Factors".

*Restaurant Closures.* In June 2018, we announced planned restaurant closures of approximately 55 to 65 restaurants beginning in the second quarter of 2018 and continuing over the next several quarters. During the twelve months ended December 31, 2018, we closed or relocated 45 Chipotle restaurants and five Pizzeria Locale restaurants in connection with this initiative. We expect to incur total restaurant exit costs, inclusive of costs already incurred, aggregating approximately

$37 million to $43 million. We recognized restaurant exit costs of approximately $35.8 million during 2018, and expect to incur additional restaurant exit costs into 2019 aggregating approximately $1 million to $7 million. For additional information, please see Note 6. "Restaurant Closure Costs and Impairment of Long-Lived Assets" in the notes to the consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data", as well as "*Risks Unique to Our Business Strategy — Our restructuring activities will increase our expenses, may not be successful, and may adversely impact employee hiring and retention*" in Item 1A. "Risk Factors".

*Restaurant Development*. For the full year 2018, we opened 137 new restaurants. We expect 2019 openings will be approximately 140 to 155 with a heavier weighting of openings towards the second half of the year.

*Management Enhancements*. Brian Niccol joined us as Chief Executive Officer and as a member of the Board in March 2018; added a new Chief Marketing Officer, Chris Brandt and our first Chief People Officer, Marissa Andrada, in April 2018; added our first Chief Legal Officer and General Counsel, Roger Theodoredis, in October 2018; and added a new Chief Development Officer, Tabassum Zalotrawala in December 2018.

## Restaurant Openings, Relocations and Closures

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Beginning of period | 2,408 | 2,250 | 2,010 |
| Openings | 137 | 183 | 243 |
| Chipotle closures/relocations | (48) | (10) | (3) |
| TastyMade closures | (1) | – | – |
| ShopHouse closures | – | (15) | – |
| Pizzeria Locale closures | (5) | – | – |
| **Total restaurants at end of period** | 2,491 | 2,408 | 2,250 |

## Results of Operations

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

### *Revenue*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Revenue | $4,865.0 | $4,476.4 | $3,904.4 | 8.7% | 14.7% |
| Average restaurant sales | $ 2.004 | $ 1.940 | $ 1.868 | 3.3% | 3.9% |
| Comparable restaurant sales increases | 4.0% | 6.4% | (20.4%) | | |

The significant factors contributing to the increase in revenue in 2018 were new restaurant openings and comparable restaurant sales increases. Revenue from restaurants not yet in the comparable restaurant base contributed $237.4 million to the revenue increase, of which $112.1 million was attributable to restaurants opened in 2018, and comparable restaurant sales increased $151.2 million. The increase in comparable restaurant sales was attributable to an increase in average check, including a 4.0% benefit from menu price increases, partially offset by 0.8% fewer comparable restaurant transactions.

The significant factors contributing to the increase in revenue in 2017 were comparable restaurant sales increases and new restaurant openings. Revenue from restaurants not yet in the comparable restaurant base contributed $338.8 million to the revenue increase, of which $149.1 million was attributable to restaurants opened in 2017, and comparable restaurant sales increased $233.2 million. The increase in comparable restaurant sales was attributable to an increase in average check, including a 1.2% benefit from menu price increases.

### *Food, Beverage and Packaging Costs*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Food, beverage and packaging | $1,600.8 | $1,535.4 | $1,365.6 | 4.3% | 12.4% |
| As a percentage of revenue | 32.9% | 34.3% | 35.0% | (1.4%) | (0.7%) |

Food, beverage and packaging costs decreased as a percentage of revenue in 2018 primarily due to the benefit of menu price increases taken in select restaurants in 2017 and again at the end of 2018. Food, beverage and packaging costs also benefitted from favorable avocado prices. These decreases were partially offset by increased freight costs, and to a lesser extent increased costs for tortillas and rice.

Food, beverage and packaging costs decreased as a percentage of revenue in 2017 primarily due to the benefit of menu price increases taken in select restaurants during the second and fourth quarters of 2017. Food, beverage and packaging costs also benefitted from bringing the preparation of lettuce and bell peppers back into our restaurants after using pre-cut produce during portions of 2016, and cost savings initiatives resulting in lower prices and usage of paper and packaging products. These decreases were partially offset by higher avocado prices.

### *Labor Costs*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Labor costs | $1,326.1 | $1,206.0 | $1,105.0 | 10.0% | 9.1% |
| As a percentage of revenue | 27.3% | 26.9% | 28.3% | 0.3% | (1.4%) |

Labor costs increased as a percentage of revenue in 2018 primarily due to an increase in wage inflation. The increase was partially offset by sales leverage as our revenues increased 8.7% in 2018, which included the benefit of menu price increases.

Labor costs as a percentage of revenue decreased during 2017 due primarily to increased crew efficiency, including the benefit of lower promotional activity during the year, improved manager deployment, and sales leverage, including the impact of menu price increases. The decrease was partially offset by wage inflation.

### *Occupancy Costs*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Occupancy costs | $347.1 | $327.1 | $293.6 | 6.1% | 11.4% |
| As a percentage of revenue | 7.1% | 7.3% | 7.5% | (0.2%) | (0.2%) |

Occupancy costs as a percentage of revenue decreased in 2018 and 2017 primarily due to sales leverage on a largely fixed-cost base.

### *Other Operating Costs*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Other operating costs | $680.0 | $651.6 | $642.0 | 4.4% | 1.5% |
| As a percentage of revenue | 14.0% | 14.6% | 16.4% | (0.6%) | (1.9%) |

Other operating costs include, among other items, marketing and promotional costs, bank and credit card processing fees, and restaurant utilities and maintenance costs. Other operating costs decreased as a percentage of revenue in 2018 due primarily to sales leverage, including the benefit of menu price increases, and to a lesser extent marketing and promotional spend decreasing from 3.5% of revenue in 2017 to 2.9% of revenue in 2018. This is partially offset by increased costs associated with store repairs and maintenance, and delivery.

Other operating costs decreased as a percentage of revenue in 2017 due primarily to decreased marketing and promotional spend, sales leverage including the benefit of menu price increases, and decreased kitchen supplies expense. Marketing and promotional spend decreased to 3.5% of revenue in 2017, as compared to 5.1% of revenue in 2016.

### *General and Administrative Expenses*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| General and administrative expense | $375.5 | $296.4 | $276.2 | 26.7% | 7.3% |
| As a percentage of revenue | 7.7% | 6.6% | 7.1% | 1.1% | (0.5%) |

General and administrative expenses increased in dollar terms in 2018, due to $32.1 million related to the corporate restructuring and other unusual charges, $21.4 million related to higher costs associated with our annual incentive cash bonus program and retention bonuses, $10.9 million associated with the biennial All Managers' Conference that was held in September 2018, $3.8 million in higher stock compensation expense, and the remaining increase primarily relates to general and administrative growth to support our restaurant growth and digitizing our restaurant experience. These increases were partially offset by the benefit of comparing against a non-recurring charge of $30.0 million recorded in the third quarter of 2017 related to the data security incident in the second quarter of 2017.

General and administrative expenses increased in dollar terms in 2017, due to the liability of $30.0 million for the data security incident that occurred in 2017, increased bonus costs and higher non-cash stock-based compensation expense of $11.8 million. The increase was partially offset by a decrease of $10.5 million in legal expenses, and decreased meeting costs of $9.1 million primarily because of the biennial All Managers Conference held in September 2016. The increase in stock-based compensation expense during 2017 was primarily a result of a cumulative reduction of expense in 2016 for performance share awards that were no longer expected to vest.

### *Depreciation and Amortization*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Depreciation and amortization | $202.0 | $163.3 | $146.4 | 23.6% | 11.6% |
| As a percentage of revenue | 4.2% | 3.6% | 3.7% | 0.5% | (0.1%) |

Depreciation and amortization increased as a percentage of revenue in 2018 due primarily to accelerated depreciation on certain restaurant assets in connection with a large restaurant refresh project and from the restaurant closures described above under "2018 Financial and Operating Highlights — Restaurant Closures."

Depreciation and amortization decreased as a percentage of revenue in 2017 due to sales leverage on a partially fixed-cost base.

### *Loss on Disposal and Impairment of Assets*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Impairment, closure costs, and asset disposals | $66.6 | $13.3 | $23.9 | 399.4% | (44.1%) |
| As a percentage of revenue | 1.4% | 0.3% | 0.6% | 1.1% | (0.3%) |

Impairment, closure costs, and asset disposals increased in dollar terms in 2018 primarily due to the planned closures of underperforming restaurants that began in the second quarter of 2018, offices affected by corporate restructuring, and the write down of a large portion of the associated long-lived asset values, which are discussed above under "2018 Financial and Operational Highlights—Corporate Restructuring" and "— Restaurant Closures."

Impairment, closure costs, and asset disposals during 2017 consisted primarily of charges related to the closure of underperforming Chipotle restaurants and the replacement of certain kitchen equipment. This was a decrease from the prior year due to the closing of all Shophouse restaurants in 2016.

### *Income Tax Provision*

| | Year ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018/2017 | 2017/2016 |
| | (dollars in millions) | | | | |
| Provision for income taxes | $ 91.9 | $99.5 | $ 15.8 | (7.6%) | 529.6% |
| Effective tax rate | 34.2% | 36.1% | 40.8% | | |

The 2018 annual effective tax rate was lower than the 2017 rate primarily due to the favorable impacts of the Tax Cuts and Jobs Act that was enacted in December 2017 and federal tax credits offset by unfavorable tax impacts of expirations and cancellations of various equity awards.

The 2017 annual effective tax rate was lower than the 2016 rate due to the enactment of the Tax Cuts and Jobs Act, resulting in our recording a benefit for the remeasurement of our deferred tax liability, as well as from a lower state tax rate. The decrease in our effective tax rate was partially offset by federal credits on overall higher pre-tax operating income.

## Quarterly Financial Data/Seasonality

The following table presents data from the consolidated statement of income for each of the eight quarters in the period ended December 31, 2018. The operating results for any quarter are not necessarily indicative of the results for any subsequent quarter.

| | 2018 Quarters Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $1,148.4 | $1,266.5 | $1,225.0 | $1,225.1 |
| Operating income | $ 92.8 | $ 68.0 | $ 58.0 | $ 39.6 |
| Net income | $ 59.4 | $ 46.9 | $ 38.2 | $ 32.0 |
| Number of restaurants opened in the quarter, net of relocations/ closures | 33 | 26 | (4) | 28 |
| Comparable restaurant sales increase | 2.2% | 3.3% | 4.4% | 6.1% |

| | 2017 Quarters Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $1,068.8 | $1,169.4 | $1,128.1 | $1,110.1 |
| Operating income | $ 73.2 | $ 106.7 | $ 30.9 | $ 60.0 |
| Net income | $ 46.1 | $ 66.7 | $ 19.6 | $ 43.8 |
| Number of restaurants opened in the quarter, net of relocations/ closures | 41 | 48 | 35 | 34 |
| Comparable restaurant sales increase | 17.8% | 8.1% | 1.0% | 0.9% |

Seasonal factors cause our profitability to fluctuate from quarter to quarter. Historically our average daily restaurant sales are lower, and net income has generally been 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 unexpected publicity impacting our business in a positive or negative way, as well as fluctuations in food or packaging costs or the timing of menu price increases or promotional activities and other marketing initiatives. 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 number of new restaurants opened in a quarter, the amount and timing of non-cash stock-based compensation expense, and 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. 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

Cash flows generated from operating activities are our principal source of liquidity, which we use to finance new restaurant construction, initiatives to improve the guest experience in our restaurants, working capital, and general corporate needs. As of December 31, 2018, we had a cash and cash equivalent and short-term investment balance of $676.8 million that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business, to invest in, maintain and refurbish our existing restaurants, to repurchase additional shares of our common stock subject to market conditions, and for general corporate purposes. As of December 31, 2018, there was $57.6 million remaining available under previously-announced stock repurchase authorizations approved by our Board of Directors. We announced $100 million in additional repurchase authorizations in February 2019. Under the repurchase authorizations, shares may be purchased from time to time in open market transactions, subject to market conditions. 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 have not 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.

Our total capital expenditures for 2018 were $287.4 million. In 2018, we spent on average about $0.9 million in development and construction costs per new restaurant, or about $0.8 million net of landlord reimbursements of $0.1 million. In 2019, we expect to incur about $300 million in total capital expenditures. We expect the majority of our capital expenditures to consist of investments in existing restaurants, including remodeling and similar improvements, and upgrading our second make lines and other restaurant equipment. We also expect about $130 million in capital expenditures related to our construction of new restaurants, before any reductions for landlord reimbursements. For new restaurants to be opened in 2019, we anticipate

average development costs will increase due to strategic initiatives planned in new restaurants such as a pickup lane and an upgraded second make line. Finally, we expect a portion of our capital expenditures for the year to be incurred for additional corporate initiatives.

## Contractual Obligations

Our contractual obligations as of December 31, 2018 were as follows:

| | Payments Due by Fiscal Year | | | | |
|---|---|---|---|---|---|
| | Total | 2019 | 2020-2021 | 2022-2023 | Thereafter |
| | | | (in thousands) | | |
| Operating leases[1] | $3,950,378 | $ 294,191 | $ 591,520 | $586,270 | $2,478,397 |
| Purchase obligations[2] | $ 884,490 | $ 584,941 | $ 198,337 | $ 101,212 | $ – |
| Deemed landlord financing[1] | $ 3,049 | $ 423 | $ 889 | $ 906 | $ 831 |
| Total | $ 4,837,917 | $879,555 | $790,746 | $688,388 | $2,479,228 |

(1) See Note 11. "Leases" of our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data."

(2) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms. We have excluded agreements that are cancelable without penalty. The majority of our purchase obligations relate to amounts owed for chicken, produce, and other ingredients and supplies, construction contractor agreements, orders submitted for equipment for restaurants under construction and planned remodels, and marketing initiatives and corporate sponsorships.

The above table does not include income tax liabilities for uncertain tax positions for which we are not able to make a reasonably reliable estimate of the amount and period of related future payments. Additionally, we have excluded our estimated loss contingencies, including the accrued liability related to the data security incident described elsewhere, due to uncertainty regarding the timing and amount of payment. See Note 13. "Commitments and Contingencies" of our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data."

## Off-Balance Sheet Arrangements

As of December 31, 2018 and 2017, 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, and materials used in the construction of our restaurants. 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, and utilities, 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 or negative consumer responses 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" 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. In addition, tenant incentives used to fund leasehold improvements are recognized when earned and recorded in deferred rent and amortized as reductions of rent expense 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.

We record a liability for lease termination costs consisting of the net present value of remaining lease obligations, net of estimated sublease rentals that could be reasonably obtained, at the date we cease using a property, and measure fair value using Level 3 inputs (unobservable inputs) based on a discounted cash flow method. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. If the estimate of sublease income was changed, our lease termination expenses could differ materially.

### *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. We manage our 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.

The fair value measurement for asset impairment is based on Level 3 inputs. We first compare the carrying value of the asset to the asset's estimated future undiscounted cash flows. If the estimated undiscounted future cash flows are less than the carrying value of the asset, we determine if we have an impairment loss by comparing the carrying value of the asset to the asset's estimated fair value. The estimated fair value of the asset is generally determined using a discounted cash flow projection model. In certain cases, management uses other market information, when available, to estimate the fair value of an asset. The impairment charges represent the excess of each asset's carrying amount over its estimated fair value. We make significant judgments to estimate future undiscounted cash flows and asset fair values. Estimates of future cash flows are highly subjective judgments based on internal projections and knowledge of our operations, historical performance, and trends in sales and restaurant operating costs, and can be significantly impacted by changes in our business or economic conditions. The determination of asset fair value is also subject to significant judgment and utilizes valuation techniques including discounting estimated future cash flows and market-based analyses to determine resale value. If our estimates or underlying assumptions, including discount rate, change in the future, our operating results may be materially impacted.

### *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 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. Certain awards that contain service, performance and market conditions have vesting criteria based on Chipotle's relative performance versus a restaurant industry peer group in annual average 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 are self-insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health, property and auto damage. Predetermined loss limits have been arranged with third party insurance companies 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. 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.

*Reserves/Contingencies for Litigation and Other Matters*

We are involved in various claims and legal actions that arise in the ordinary course of business. We record an accrual for legal contingencies when we determine that it is probable that we have incurred a liability and we can reasonably estimate the amount of the loss. 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.

*Income Taxes*

Our provision for income taxes requires the use of estimates in determining the timing and amounts of deductible and taxable items including impacts on effective tax rates, deferred tax items and valuation allowances based on our management's interpretation and application of complex tax laws and accounting guidance. We establish reserves for uncertain tax positions for material, known tax exposures relating to deductions, transactions and other matters involving some uncertainty as to the measurement and recognition of the item. While we believe that our reserves are adequate, issues raised by a tax authority may be finally resolved at an amount different than the related reserve and could materially increase or decrease our income tax provision in the current and/or future periods.

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

### Commodity Price Risks

We are exposed to commodity price risks. Many of the ingredients we use to prepare our food, as well as our packaging materials and utilities to run our restaurants, are ingredients or commodities 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, 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, and range forward protocols under which we agree on a price range for the duration of that protocol. However, a majority of the dollar value of our purchases is effectively at spot prices. Generally, our pricing protocols with suppliers can remain in effect for periods ranging from one to 36 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 practical, 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, 2018,

we had $650.7 million in investments and interest-bearing cash accounts, including insurance-related restricted trust accounts classified in restricted cash, and $35.3 million in accounts with an earnings credit we classify as interest and other income, which combined earned a weighted average interest rate of 2.2%.

### 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 **40**

Consolidated Balance Sheet as of December 31, 2018 and 2017 **41**

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 **42**

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016 **43**

Consolidated Statement of Cash Flows for the years ended December 31, 2018, 2017 and 2016 **44**

Notes to Consolidated Financial Statements **45**

## Report of Independent Registered Public Accounting Firm

**To the Shareholders and Board of Directors of**
**Chipotle Mexican Grill, Inc.**

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Chipotle Mexican Grill, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, 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 7, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1997.

Irvine, California
February 7, 2019

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

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 249,953 | $ 184,569 |
| Accounts receivable | 62,312 | 40,453 |
| Inventory | 21,555 | 19,860 |
| Prepaid expenses and other current assets | 54,129 | 50,918 |
| Income tax receivable | – | 9,353 |
| Investments | 426,845 | 324,382 |
| Total current assets | 814,794 | 629,535 |
| Leasehold improvements, property and equipment, net | 1,379,254 | 1,338,366 |
| Restricted cash | 30,199 | 29,601 |
| Other assets | 19,332 | 26,251 |
| Goodwill | 21,939 | 21,939 |
| Total assets | $ 2,265,518 | $ 2,045,692 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 113,071 | $ 82,028 |
| Accrued payroll and benefits | 113,467 | 82,541 |
| Accrued liabilities | 147,849 | 95,679 |
| Unearned revenue | 70,474 | 63,645 |
| Income tax payable | 5,129 | – |
| Total current liabilities | 449,990 | 323,893 |
| Commitments and contingencies (Note 13) | | |
| Deferred rent | 330,985 | 316,498 |
| Deferred income tax liability | 11,566 | 814 |
| Other liabilities | 31,638 | 40,042 |
| Total liabilities | 824,179 | 681,247 |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value, 600,000 shares authorized, no shares issued as of December 31, 2018 and 2017, respectively | – | – |
| Common stock, $0.01 par value, 230,000 shares authorized, 35,973 and 35,852 shares issued as of December 31, 2018 and 2017, respectively | 360 | 359 |
| Additional paid-in capital | 1,374,154 | 1,305,090 |
| Treasury stock, at cost, 8,276 and 7,826 common shares at December 31, 2018 and 2017, respectively | (2,500,556) | (2,334,409) |
| Accumulated other comprehensive income (loss) | (6,236) | (3,659) |
| Retained earnings | 2,573,617 | 2,397,064 |
| Total shareholders' equity | 1,441,339 | 1,364,445 |
| Total liabilities and shareholders' equity | $ 2,265,518 | $ 2,045,692 |

See accompanying notes to consolidated financial statements.

## CHIPOTLE MEXICAN GRILL, INC.

## CONSOLIDATED STATEMENT OF INCOME
(in thousands, except per share data)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue | $4,864,985 | $4,476,412 | $3,904,384 |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | | |
| Food, beverage and packaging | 1,600,760 | 1,535,428 | 1,365,580 |
| Labor | 1,326,079 | 1,205,992 | 1,105,001 |
| Occupancy | 347,123 | 327,132 | 293,636 |
| Other operating costs | 680,031 | 651,644 | 641,953 |
| General and administrative expenses | 375,460 | 296,388 | 276,240 |
| Depreciation and amortization | 201,979 | 163,348 | 146,368 |
| Pre-opening costs | 8,546 | 12,341 | 17,162 |
| Impairment, closure costs, and asset disposals | 66,639 | 13,345 | 23,877 |
| Total operating expenses | 4,606,617 | 4,205,618 | 3,869,817 |
| Income from operations | 258,368 | 270,794 | 34,567 |
| Interest and other income, net | 10,068 | 4,949 | 4,172 |
| Income before income taxes | 268,436 | 275,743 | 38,739 |
| Provision for income taxes | (91,883) | (99,490) | (15,801) |
| Net income | $ 176,553 | $ 176,253 | $ 22,938 |
| Earnings per share: | | | |
| Basic | $ 6.35 | $ 6.19 | $ 0.78 |
| Diluted | $ 6.31 | $ 6.17 | $ 0.77 |
| Weighted-average common shares outstanding: | | | |
| Basic | 27,823 | 28,491 | 29,265 |
| Diluted | 27,962 | 28,561 | 29,770 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**(in thousands)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net income | $176,553 | $176,253 | $22,938 |
| Other comprehensive income (loss), net of income taxes: | | | |
| Foreign currency translation adjustments | (2,736) | 4,689 | (1,291) |
| Unrealized gain (loss) on available-for-sale securities | 291 | (274) | 2,251 |
| Tax benefit (expense) | (132) | 88 | (849) |
| Other comprehensive income (loss), net of income taxes | (2,577) | 4,503 | 111 |
| Comprehensive income | $173,976 | $180,756 | $23,049 |

See accompanying notes to consolidated financial statements.

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

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | Shares | Amount | | Available-for-Sale Securities | Foreign Currency Translation | |
| 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 |
| Stock-based compensation | | | 66,396 | | | | | | 66,396 |
| Stock plan transactions and other | 19 | 1 | (181) | | | | | | (180) |
| Acquisition of treasury stock | | | | 807 | (285,020) | | | | (285,020) |
| Net income | | | | | | 176,253 | | | 176,253 |
| Other comprehensive income (loss), net of income tax | | | | | | | (186) | 4,689 | 4,503 |
| Balance, December 31, 2017 | 35,852 | $359 | $1,305,090 | 7,826 | $(2,334,409) | $2,397,064 | $ (306) | $ (3,353) | $1,364,445 |
| Stock-based compensation | | | 69,947 | | | | | | 69,947 |
| Stock plan transactions and other | 121 | 1 | (883) | | | | | | (882) |
| Acquisition of treasury stock | | | | 450 | (166,147) | | | | (166,147) |
| Net income | | | | | | 176,553 | | | 176,553 |
| Other comprehensive income (loss), net of income tax | | | | | | | 159 | (2,736) | (2,577) |
| Balance, December 31, 2018 | 35,973 | $360 | $ 1,374,154 | 8,276 | $(2,500,556) | $ 2,573,617 | $ (147) | $(6,089) | $ 1,441,339 |

See accompanying notes to consolidated financial statements.

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 (as adjusted)(1) | 2016 (as adjusted)(1) |
| **Operating activities** | | | |
| Net income | $ 176,553 | $ 176,253 | $ 22,938 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 201,979 | 163,348 | 146,368 |
| Deferred income tax (benefit) provision | 10,585 | (18,026) | (14,207) |
| Impairment, closure costs, and asset disposals | 61,987 | 13,345 | 23,877 |
| Bad debt allowance | 125 | 214 | (262) |
| Stock-based compensation expense | 69,164 | 65,255 | 64,166 |
| Other | (2,918) | (218) | (1,924) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (8,298) | (140) | (1,923) |
| Inventory | (1,722) | (5,250) | (91) |
| Prepaid expenses and other current assets | (3,811) | (6,710) | (4,259) |
| Other assets | (2,005) | (1,476) | 1,063 |
| Accounts payable | 32,080 | 10,908 | (6,734) |
| Accrued payroll and benefits | 29,568 | 6,188 | 11,416 |
| Accrued liabilities | 14,831 | 28,179 | 13,692 |
| Unearned revenue | 6,829 | 4,207 | 8,383 |
| Income tax payable/receivable | 14,439 | (4,173) | 54,340 |
| Deferred rent | 21,297 | 29,996 | 37,030 |
| Other long-term liabilities | 869 | 6,316 | 1,287 |
| Net cash provided by operating activities | 621,552 | 468,216 | 355,160 |
| **Investing activities** | | | |
| Purchases of leasehold improvements, property and equipment | (287,390) | (216,777) | (258,842) |
| Purchases of investments | (485,188) | (199,801) | – |
| Maturities of investments | 385,000 | 330,000 | 45,000 |
| Proceeds from sale of investments | – | – | 540,648 |
| Net cash provided by (used in) investing activities | (387,578) | (86,578) | 326,806 |
| **Financing activities** | | | |
| Acquisition of treasury stock | (160,937) | (285,218) | (836,760) |
| Tax withholding on share-based compensation awards | (5,411) | (702) | (895) |
| Stock plan transactions and other financing activities | (187) | 26 | 1,372 |
| Net cash used in financing activities | (166,535) | (285,894) | (836,283) |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash | (1,457) | 2,056 | 110 |
| Net change in cash, cash equivalents, and restricted cash | 65,982 | 97,800 | (154,207) |
| Cash, cash equivalents, and restricted cash at beginning of period | 214,170 | 116,370 | 270,577 |
| Cash, cash equivalents, and restricted cash at end of period | $ 280,152 | $ 214,170 | $ 116,370 |
| **Supplemental disclosures of cash flow information** | | | |
| Income taxes paid | $ 67,053 | $ 119,787 | $ 23,862 |
| Increase (decrease) in purchases of leasehold improvements, property, and equipment accrued in accounts payable and accrued liabilities | $ (936) | $ (7,690) | $ (1,781) |
| Increase (decrease) in acquisition of treasury stock accrued in accrued liabilities | $ 200 | $ (900) | $ (22,778) |

(1) Balances were adjusted due to the adoption of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" as discussed in further detail in Note 1. "Description of Business and Summary of Significant Accounting Policies Recent Accounting Standards"

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

In this annual report on Form 10-K, Chipotle Mexican Grill, Inc., a Delaware corporation, together with its subsidiaries, is collectively referred to as "Chipotle," "we," "us," or "our."

We develop and operate restaurants that serve a relevant menu of burritos, burrito bowls, tacos, and salads, made using fresh, high-quality ingredients. As of December 31, 2018, we operated 2,452 Chipotle restaurants throughout the United States as well as 37 international Chipotle restaurants and two non-Chipotle restaurants. We manage our operations and restaurants based on eight regions that aggregate into one reportable segment.

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

Our consolidated financial statements include our accounts and our wholly and majority owned subsidiaries after elimination of all intercompany accounts and transactions.

### *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 the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as 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*

We generally recognize revenue, net of discounts and incentives, when payment is tendered at the point of sale. We report revenue net of sales-related taxes collected from customers and remitted to governmental taxing authorities. We recognize 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 on the consolidated statements of income and in accrued liabilities on the consolidated balance sheets.

### *Delivery*

We offer our customers delivery in certain geographic regions. Delivery services are fulfilled by third-party service providers. In some cases, we make delivery sales through Chipotle.com or the Chipotle App ("White Label Sales"). In other cases, we make delivery sales through a non-Chipotle owned channel, such as the delivery partner's website or app ("Marketplace Sales"). With respect to White Label Sales, we control the delivery services and generally recognize revenue, including delivery fees, when the delivery partner transfers food to the customer. For these sales, we receive payment directly from the customer at the time of sale. With respect to Marketplace Sales, we generally recognize revenue, excluding delivery fees, when control of the food is transferred to the delivery partner and we receive payment subsequent to the transfer of food. The payment terms with respect to Marketplace Sales are short-term in nature.

### *Gift Cards*

We sell gift cards, which do not have expiration dates and we do not deduct non-usage fees from outstanding gift card balances. We recognize revenue from gift cards when the gift card is redeemed by the customer. In addition, we also recognize revenue when we determine 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. Gift card breakage is recognized in revenue as the gift cards are used on a pro rata basis over an eight-month period beginning at the date of the gift card sale and is included in revenue on the consolidated statement of income. We have determined that 4% of gift card sales will not be redeemed and will be retained by us. Gift card liability balances are typically highest at the end of each calendar year following increased gift card sales during the holiday season; accordingly, revenue recognized from gift card liability balances is highest in the first quarter of each calendar year.

### *Chipotle Rewards*

Effective October 2018, we launched a loyalty program, Chipotle Rewards, in three test markets. Eligible customers who enroll in the program generally earn points for every dollar spent. After accumulating a certain number of points, the customer earns a reward that can be redeemed for a free entrée. We may also periodically offer promotions, which provide the customer with the opportunity to earn bonus points or free food. Earned rewards generally expire one to six months after they are issued, and points generally expire if an account is inactive for a period of six months.

We defer revenue associated with the estimated selling price of points earned by program members as each point is earned. The estimated selling price of each point earned is based on the estimated value of product for which the reward is expected to be redeemed, net of points we do not expect to be redeemed. Our estimate of points we expect to be redeemed is based on historical company specific data. We recognize loyalty revenue when a customer redeems an earned reward. Deferred revenue associated with Chipotle Rewards is included in unearned revenue in our consolidated balance sheet.

### *Cash and Cash Equivalents*

We consider highly liquid investment instruments purchased with an initial maturity of three months or less to be cash equivalents. We maintain cash and cash equivalent balances that exceed federally-insured limits with a number of financial institutions.

### *Restricted Cash*

We maintain certain cash balances restricted as to withdrawal or use. Restricted cash assets are primarily insurance-related restricted trust assets.

### *Accounts Receivable*

Accounts receivable primarily consists of receivables from third party gift card distributors, tenant improvement receivables from landlords, vendor rebates, delivery receivables and interest receivable. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our 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. The allowance for doubtful accounts is zero for December 31, 2018 and 2017, respectively.

### *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. Investments classified as available-for-sale are carried at fair value with unrealized gains and losses, net of tax, included as a component of other comprehensive income (loss) on the statement of comprehensive income. Held-to-maturity securities are carried at amortized cost. Impairment charges on investments are recognized in interest and other income, net on the consolidated statement of 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 $6,285 and $7,507 as of December 31, 2018 and 2017, 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 include option periods that are reasonably assured, 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.

At least annually, we evaluate, and adjust 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 is not subject to amortization, but instead is tested for impairment at least annually, and we are required to record any necessary impairment adjustments. Impairment is measured as the excess of the carrying value over the fair value of the goodwill. No impairment charges were recognized on goodwill for the years ended December 31, 2018, 2017 and 2016.

### *Other Assets*

Other assets consist primarily of a rabbi trust as described further in Note 10. "Employee Benefit Plans," transferable liquor licenses which are carried at the lower of fair value or cost, fixed asset deposits, and rental deposits related to leased properties.

### *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. We manage our 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.

The fair value measurement for asset impairment is based on Level 3 inputs. See "Fair Value Measurements" below for a description of level inputs. We first compare the carrying value of the asset to the asset's estimated future undiscounted cash flows. If the estimated undiscounted future cash flows are less than the carrying value of the asset, we determine if we have an impairment loss by comparing the carrying value of the asset to the asset's estimated fair value. The estimated fair value of the asset is generally determined using a discounted cash flow projection model. In certain cases, management uses other market information, when available, to estimate the fair value of an asset. The impairment charges represent the excess of each asset's carrying amount over its estimated fair value.

### *Income Taxes*

We compute income taxes using the asset and liability method, under which deferred income tax assets and liabilities are recognized based on the differences between the financial reporting bases and the respective tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which we expect the temporary differences to reverse. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period that includes the enactment date.

We routinely assess the realizability of our deferred tax assets by jurisdiction and may record a valuation allowance if, based on all available positive and negative evidence, we determine that some portion of the deferred tax assets may not be realized prior to expiration. If we determine that we may be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes during the period in which the determination was made that the deferred tax asset can be realized.

We evaluate our tax exposures associated with our various tax filing positions and recognize a tax benefit from an uncertain tax position only if it is more likely than not that based on its technical merits the tax position will be sustained upon examination by the relevant taxing authorities, including resolutions of any related appeals or litigation processes. The tax benefits recognized in the financial statements from such a position are measured based on the largest tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority. For uncertain tax positions that do not meet this threshold, we record a related tax liability in the period in which it arises. We adjust our unrecognized tax benefit liability and income tax expense in the period in which the uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position or when new information becomes available that requires a change in recognition and/or measurement of the liability.

We 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 our consolidated statement of income. Accrued interest and penalties are included within the related tax liability on our consolidated balance sheet.

### *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, and are included in operating expenses on the consolidated statement of income.

### *Insurance Liability*

We are self-insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employee health, property and auto damage. Predetermined loss limits have been arranged with third party insurance companies 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.

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

We are involved in various claims and legal actions that arise in the ordinary course of business. We record an accrual for legal contingencies when we determine that it is probable that we have incurred a liability and we can reasonably estimate the amount of the loss.

### *Advertising and Marketing Costs*

Advertising and marketing costs are expensed as incurred and totaled $111,695, $106,345 and $102,969 for the years ended December 31, 2018, 2017 and 2016, respectively. Advertising and marketing costs are included in other operating costs on the consolidated statement of income.

### *Rent*

Rent expense for our 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 we have 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 on the consolidated balance sheet. Pre-opening rent is included in pre-opening costs on the consolidated statement of 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 operating leases contain clauses that provide additional contingent rent based on a percentage of sales greater than certain specified target amounts. Contingent rent expense is recognized provided the achievement of that target is considered probable.

We record a liability for lease termination costs at the date we cease using a property, consisting of the net present value of remaining lease obligations, net of estimated sublease rentals that could be reasonably obtained, and measure fair value using Level 3 inputs (unobservable inputs) based on a discounted cash flow method. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred.

### *Stock-Based Compensation*

We issue shares as part of employee compensation pursuant to the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan (the "2011 Incentive Plan"). Stock-only stock appreciation rights, or SOSARs, and stock awards 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. We estimate forfeitures based on historical data when determining the amount of stock-based compensation costs to be recognized in each period. We have also granted SOSARs and stock awards with performance vesting conditions and/or market vesting conditions. Stock awards with performance or market vesting conditions generally vest based on our achievement versus stated targets or criteria over a three-year performance and service period. 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 we have 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 our new restaurant development activities, and expense for these awards is recognized as capitalized development and included in leasehold improvements, property and equipment on the consolidated balance sheet.

### *Fair Value Measurements*

Fair value is the price we 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, we determine 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 for the asset or liability. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

### *Foreign Currency Translation*

Our international operations 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) on the consolidated statement of comprehensive income.

### *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 are antidilutive.

### *Recently Issued Accounting Standards*

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, "Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40)": Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which clarifies the accounting for implementation costs in cloud computing arrangements. ASU 2018-15 is effective for us in the first quarter of fiscal 2020, and early adoption is permitted. The adoption of ASU 2018-15 is still being evaluated on our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, "Leases (Topic 842)," and issued additional clarifications and improvements throughout 2018. The pronouncement requires lessees to recognize a liability for lease obligations, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet. The guidance requires disclosure of key information about leasing arrangements that is intended to give financial statement users the ability to assess the amount, timing, and potential uncertainty of cash flows related to leases. We have adopted the requirements of the new lease standard effective January 1, 2019. We have elected the optional transition method to apply the standard as of the effective date and therefore, we will not apply the standard to the comparative periods presented in our financial statements. At the beginning of the period of adoption, we will recognize a cumulative-effect adjustment in retained earnings due to impairment of certain right-of-use assets at the effective date. We will elect the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. We will not elect the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of right-of-use assets. Further, we will elect a short-term lease exception policy, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. We are finalizing the impact of the standard to our accounting policies, processes, disclosures, and internal control over financial reporting and have implemented necessary upgrades to our existing lease system.

The adoption of ASU 2016-02 will have a significant impact on our consolidated balance sheet as we will record material assets and obligations primarily related to approximately 2,500 restaurant operating leases and corporate office leases. We expect to record operating lease liabilities of approximately $2.7 billion based on the present value of the remaining minimum rental payments using discount rates as of the effective date. We expect to record corresponding right-of-use assets of approximately $2.4 billion, based upon the operating lease liabilities adjusted for prepaid and deferred rent, unamortized initial direct costs, liabilities associated with lease termination costs and impairment of right-of-use assets recognized in retained earnings as of January 1, 2019. We do not expect a material impact on our consolidated statement of income or our consolidated statement of cash flows.

Furthermore, we have evaluated our existing sales and leaseback transactions, which do not qualify for sale leaseback accounting under ASC 840, and determined that these transactions do not qualify for sale leaseback accounting under ASC 842 due to fixed price renewal options prohibiting sale accounting. These transactions will continue to be accounted for under the financing method upon transition to ASC 842.

We 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.

### *Recently Adopted Accounting Standard*

During the first quarter of 2018, we adopted ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)," which requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption did not have an impact on the consolidated balance sheet, statements of income, or cash flows. The primary impact of adoption was the enhancement of our disclosures related to gift cards and certain promotional activity included in Note 1. "Description of Business and Summary of Significant Accounting Policies" and Note 3. "Revenue Recognition."

During the first quarter of 2018, we retrospectively adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires restricted cash to be classified with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. Accordingly, we reclassified $29,601 and $28,490 of restricted cash into cash, cash equivalents, and restricted cash as of December 31, 2017 and December 31, 2016, for a total balance of $214,170 and $116,370, which resulted in a $1,111 and $5,918 increase in net cash provided by operating activities in the consolidated statement of cash flows for the twelve months ended December 31, 2017 and December 31, 2016, respectively. Restricted cash assets are primarily insurance related restricted trust assets.

## 2. Supplemental Financial Information

Leasehold improvements, property and equipment were as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Land | $ 12,943 | $ 12,943 |
| Leasehold improvements and buildings | 1,689,873 | 1,635,422 |
| Furniture and fixtures | 173,252 | 166,915 |
| Equipment | 543,869 | 460,138 |
| Construction in Progress | 42,824 | 41,872 |
| Leasehold improvements, property and equipment | 2,462,761 | 2,317,290 |
| Accumulated depreciation | (1,083,507) | (978,924) |
| Leasehold improvements, property and equipment, net | $ 1,379,254 | $1,338,366 |

Accrued payroll and benefits were as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Workers' compensation liability | $30,878 | $ 34,631 |
| Accrued payroll | 35,622 | 19,666 |
| Other accrued payroll and benefits | 46,967 | 28,244 |
| Accrued payroll and benefits | $113,467 | $ 82,541 |

Accrued liabilities were as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Transaction tax payable | $ 21,762 | $ 18,920 |
| Data security incident liability | 29,289 | 30,000 |
| Other accrued liabilities | 96,798 | 46,759 |
| Accrued liabilities | $147,849 | $ 95,679 |

## 3. Revenue Recognition

The gift card liability included in unearned revenue on the consolidated balance sheets is as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Gift card liability | $70,474 | $63,645 |

Revenue recognized on the consolidated statements of income for the redemption of gift cards that were included in accrued liabilities at the beginning of the year is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue recognized from gift card liability balance at the beginning of the year | $36,094 | $37,109 | $32,744 |

We offered a limited-time frequency program called Chiptopia Summer Rewards during the third quarter of 2016, which allowed customers to redeem certain rewards earned through the first quarter of 2017. We deferred revenue reflecting the portion of the original rewards that were earned by program participants and not redeemed, and we recorded a corresponding liability on the consolidated balance sheet. The portion of revenue allocated to the rewards was based on the estimated standalone selling price of the award earned and took into consideration company-specific historical redemption

patterns for similar promotions. Revenue was recognized as an award was redeemed, or upon expiration. During the twelve months ended December 31, 2017, we recognized $5,489 in revenue from the deferred liability for the loyalty rewards balance. No other material amounts related to loyalty rewards have been recognized in revenue for any periods presented.

## 4. Fair Value of Financial Instruments

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

Our investments consist of U.S. treasury notes with maturities of up to one year. Fair value of investments is measured using Level 1 inputs. We designate the appropriate classification of our investments at the time of purchase based upon the intended holding period.

As of September 30, 2018, we transferred the classification of our investments from available-for-sale ("AFS") to held-to-maturity ("HTM") due to our ability and intent to hold these securities to maturity. The transfer from AFS to HTM was recorded at the fair value of the AFS securities at the time of transfer. The unrealized holding loss of $303, net of tax, at the date of transfer was retained in other comprehensive income (loss) on the consolidated statement of comprehensive income. Such amounts will be amortized to interest and other income on the consolidated statement of income over the remaining life of the securities. The amortization of this unrealized holding loss will be offset by the discount created as a result of this reclassification, which will also be amortized over the remaining life of the securities to interest and other income on the consolidated statement of income.

HTM securities are carried at amortized cost, which approximated fair value as of December 31, 2018. We recognize impairment charges when management believes the decline in the fair value of the investment is other-than-temporary. No impairment charges were recognized on our investments for the twelve months ended December 31, 2018. The fair value of our investments as of December 31, 2017, which were then classified as AFS, was $324,382, which included an unrealized loss of $493.

Realized gains and losses on AFS securities are recorded in interest and other income on the consolidated statement of income. We had no realized gains or losses for the years ended December 31, 2018 and 2017, and $547 of realized gains on AFS securities for the year ended December 31, 2016.

We have 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 10. "Employee Benefit Plans."

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Assets recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as leasehold improvements, property and equipment, goodwill, and other intangible assets. These assets are measured at fair value if determined to be impaired.

Other than as disclosed in Note 5. "Corporate Restructuring Costs" and Note 6. "Restaurant Closure Costs and Impairment of Long-Lived Assets" as of December 31, 2018 and 2017, we had no non-financial assets or liabilities that were measured using Level 3 inputs.

## 5. Corporate Restructuring Costs

In May 2018, we announced that we would open a headquarters office in Newport Beach, California, consolidate certain corporate administrative functions into our existing office in Columbus, Ohio, and close our existing headquarters offices in Denver, Colorado, as well as additional corporate offices in New York, New York. All affected employees were either offered an opportunity to continue in the new organization or were offered a severance package. We record severance as a one-time termination benefit and recognize the expense ratably over the employees' required future service period. We record a liability for lease termination costs at the date we cease using property, consisting of the net present value of remaining lease obligations, net of estimated sublease rentals that could be reasonably obtained, and measure fair value using Level 3 inputs. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in the period incurred. All other costs, including other employee transition costs, recruitment and relocation costs, other office closure costs, and third-party costs, are recognized in the period incurred.

Corporate restructuring costs consist of the following:

| | Year ended December 31, 2018 |
|---|---|
| Employee severance and other employee transition costs[1] | $ 6,919 |
| Recruitment and relocation costs[1] | 9,952 |
| Lease termination and other office closure costs[2] | 15,571 |
| Third-party and other costs[1] | 8,836 |
| Stock-based compensation[1] | 1,345 |
| Total restructuring costs | $42,623 |

(1) Recorded in general and administrative expenses on the consolidated statement of income.
(2) Recorded in impairment, closure costs, and asset disposals on the consolidated statement of income.

Changes in our restructuring liability which are included in accrued liabilities on the consolidated balance sheet were as follows:

| | Balance December 31, 2017 | Charges | Payments | Balance December 31, 2018 |
|---|---|---|---|---|
| Employee severance and other employee transition costs | $ – | $ 6,919 | $ (4,197) | $ 2,722 |
| Recruitment and relocation costs | – | 9,952 | (9,728) | 224 |
| Lease termination and other office closure costs | – | 15,571 | – | 15,571 |
| Third-party and other costs | – | 8,836 | (8,282) | 554 |
| Total restructuring liability | $ – | $41,278 | $(22,207) | $19,071 |

## 6. Restaurant Closure Costs and Impairment of Long-Lived Assets

During the year ended December 31, 2018, we closed or relocated a total of 48 underperforming Chipotle restaurants, five Pizzeria Locale restaurants, and one TastyMade restaurant. As a result, we incurred lease termination, asset impairment and other closure costs, which were recorded in impairment, closure costs, and asset disposals on the consolidated statement of income as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Lease termination and other restaurant closure costs | $40,522 | $3,284 | $17,394 |

Changes in our lease termination costs liability which is included in accrued liabilities on the consolidated balance sheet were as follows:

| | Balance December 31, 2017 | Charges | Payments | Balance December 31, 2018 |
|---|---|---|---|---|
| Lease termination costs for closed restaurants | $1,416 | $13,843 | $(4,519) | $10,740 |

In June 2018, we announced planned restaurant closures of approximately 55 to 65 restaurants beginning in the second quarter of 2018 and continuing over the next several quarters. As a part of this plan, and included in the total lease termination and other restaurant closure costs discussed above, we have closed or relocated 45 Chipotle restaurants and five Pizzeria Locale restaurants.

## 7. Income Taxes

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Current tax: | | | |
| U.S. Federal | $58,878 | $98,208 | $20,765 |
| U.S. State | 21,780 | 18,639 | 8,687 |
| Foreign | 637 | 669 | 556 |
| | 81,295 | 117,516 | 30,008 |
| Deferred tax: | | | |
| U.S. Federal | 10,541 | (16,201) | (11,596) |
| U.S. State | 479 | (1,559) | (2,546) |
| Foreign | (2,261) | (496) | (2,470) |
| | 8,759 | (18,256) | (16,612) |
| Valuation allowance | 1,829 | 230 | 2,405 |
| Provision for income taxes | $ 91,883 | $99,490 | $ 15,801 |

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Statutory U.S. federal income tax rate | 21.0% | 35.0% | 35.0% |
| State income tax, net of related federal income tax benefit | 6.6 | 4.4 | 13.3 |
| Federal credits | (2.1) | (1.5) | (10.1) |
| Executive compensation disallowed | 1.4 | – | – |
| Meals and entertainment | 0.1 | – | – |
| Enhanced deduction for food donation | (0.1) | (0.2) | (2.4) |
| Valuation allowance | 0.7 | 0.1 | 6.0 |
| Other | 3.5 | 1.5 | 6.2 |
| Effects of the TCJA | – | (2.3) | – |
| Return to provision and other discrete items | 1.1 | (0.9) | (7.2) |
| Equity compensation related adjustments | 2.0 | – | – |
| Effective income tax rate | 34.2% | 36.1% | 40.8% |

The 2018 annual effective tax rate was lower than the 2017 rate primarily due to the favorable impacts of the TCJA (as defined below) and federal tax credits offset by unfavorable tax impacts of expirations and cancellations of various equity awards.

The components of the deferred income tax assets and liabilities as of December 31, 2018 and 2017 for continuing operations are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Deferred income tax liability: | | |
| Leasehold improvements, property and equipment | $ 144,113 | $140,908 |
| Goodwill and other assets | 1,438 | 1,339 |
| Prepaid assets and other | 4,154 | 5,191 |
| Total deferred income tax liability | 149,705 | 147,438 |
| Deferred income tax asset: | | |
| Deferred rent | 49,481 | 42,859 |
| Gift card liability | 5,752 | 4,580 |
| Capitalized transaction costs | 323 | 324 |
| Stock-based compensation and other employee benefits | 65,651 | 80,447 |
| Foreign net operating loss carry-forwards | 11,871 | 11,376 |
| State credits | 5,230 | 5,589 |
| Allowances, reserves and other | 13,355 | 13,719 |
| Valuation allowance | (13,524) | (12,270) |
| Total deferred income tax asset | 138,139 | 146,624 |
| Net deferred income tax liability | $ 11,566 | $ 814 |

As of December 31, 2018, we have $1,530 of deferred tax assets related to outstanding non-vested stock awards that contain market conditions. If market conditions are not achieved, then we may not realize the benefit of these deferred tax assets, which would increase our effective tax rates in future periods.

As of December 31, 2018 and 2017, the gross foreign net operating losses were $54,599 and $50,292 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, we had gross valuation allowances of approximately $63,509 and $54,675, respectively, against certain foreign deferred tax assets. The increase in the valuation allowance was primarily due to the recording of a valuation allowance on various foreign tax attributes.

*Unrecognized Tax Benefits*
A reconciliation of the unrecognized tax benefits is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Beginning of year | $8,937 | $ 4,211 | $3,776 |
| Increase resulting from current year tax position | 751 | 4,726 | 435 |
| Lapsing of statutes of limitations | (328) | – | – |
| End of year | $9,360 | $8,937 | $ 4,211 |

Interest expense related to uncertain tax positions is recognized in interest expense, and penalties related to uncertain tax positions are recognized in income tax expense. During the years ended December 31, 2018, 2017, and 2016, we recognized $536, $364, and $430, respectively, in interest expense related to uncertain tax positions. These balances are gross amounts before any tax benefits and are included in other liabilities in the accompanying consolidated balance sheets. We have accrued $1,329 and $794 for the payment of interest at December 31, 2018 and 2017, respectively.

We are no longer subject to U.S. federal tax examinations by tax authorities for tax years before 2015. For the majority of states where we have a significant presence, we are no longer subject to tax examinations by tax authorities for tax years before 2015. Currently, we expect expirations of statutes of limitations, excluding indemnified amounts, on reserves of approximately $767 within the next twelve months.

It is reasonably possible the amount of the unrecognized benefit with respect to certain unrecognized positions could significantly increase or decrease within the next twelve months and would have an impact on net income.

*Tax Cuts and Jobs Act*
Effective for tax years beginning after December 31, 2017, the U.S. corporate income tax rate is 21% pursuant to the Tax Cuts and Jobs Act ("TCJA"), that was signed into law December 2017. As of December 31, 2018, we have completed our accounting for the tax effects of the TCJA and recorded cumulative tax adjustments of $6,446 in accordance with SAB 118 guidance.

In connection with the TCJA, a one-time transition tax is assessed on total post-1986 accumulated foreign earnings and profits that were previously deferred from U.S. income taxes, the amount of those earnings held in cash, and other specified assets and foreign tax pools. Based on our analysis of our total post-1986 accumulated foreign earnings and profits that were previously deferred from U.S. income taxes, the amount of those earnings held in cash, and other specified assets and foreign tax pools, we have determined a one-time transition tax of $0.

## 8. Shareholders' Equity

Through December 31, 2018, we had announced authorizations by our Board of Directors of repurchases of shares of common stock, which in the aggregate, authorized expenditures of up to $2.5 billion.
On February 6, 2019, we announced that our Board of Directors authorized the repurchase of up to an additional $100,000 for repurchase of shares of common stock. Under the remaining repurchase authorizations, shares may be purchased from time to time in open market transactions, subject to market conditions.

As of December 31, 2018, $57,551 was available to be repurchased under previously-announced repurchase programs. Shares repurchased are being held in treasury stock until they are reissued or retired at the discretion of the Board of Directors.

During 2018, 2017, and 2016, 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. We deem shares surrendered by the participants in accordance with the applicable award agreements and plan as repurchased, but do not deem such shares to be part of publicly announced share repurchase programs.

## 9. Stock-Based Compensation

Pursuant to the 2011 Incentive Plan, we grant stock options, SOSARs, restricted stock units ("RSUs"), or performance/market based restricted stock units ("PSUs") to employees and non-employee directors. We issue shares of common stock upon the exercise of SOSARs and the vesting of RSUs and PSUs.

Under the 2011 Incentive Plan, 6,830 shares of common stock have been authorized and reserved for issuance to eligible participants, of which 2,626 shares were authorized for issuance but not issued or subject to outstanding awards at December 31, 2018. For purposes of calculating the available shares remaining under the 2011 Incentive Plan, each share issuable pursuant to outstanding full value awards, such as RSUs and PSUs, counts as two shares, and each share underlying a stock option or SOSAR count as

one share. 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-based compensation expense recognized in the consolidated financial statements was as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Stock-based compensation expense | $69,947 | $66,396 | $ 65,112 |
| Stock-based compensation expense, net of tax | $ 51,544 | $40,370 | $35,974 |
| Stock-based compensation expense recognized as capitalized development | $ 783 | $ 1,141 | $ 946 |
| Excess tax benefit (deficit) on stock-based compensation recognized in provision for income taxes | $ (6,162) | $ 448 | $ – |

*SOSARs*

SOSAR activity under the 2011 Stock Incentive Plan (in thousands, except years and per share data) was as follows:

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | 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 | 1,999 | $480.09 | 1,917 | $490.06 | 1,694 | $490.70 |
| Granted | 741 | $ 396.66 | 304 | $ 426.70 | 460 | $ 457.77 |
| Exercised | (408) | $ 353.98 | (35) | $ 307.83 | (124) | $ 315.87 |
| Forfeited or cancelled | (180) | $ 489.14 | (187) | $ 527.53 | (113) | $ 559.25 |
| Expired | (1) | $ 437.62 | – | $ – | – | $ – |
| Outstanding, end of year | 2,151 | $ 474.51 | 1,999 | $480.09 | 1,917 | $490.06 |

| | Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Years of Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2018 | 2,151 | $ 474.51 | 3.8 | $ 49,160 |
| Vested and expected to vest as of December 31, 2018 | 2,107 | $476.09 | 3.7 | $47,427 |
| Exercisable as of December 31, 2018 | 1,047 | $538.93 | 2.3 | $ 10,627 |

No SOSARs that included performance conditions were granted during 2018, 2017, or 2016, but in previous years, we granted SOSARs that included such conditions. As of December 31, 2018, 253 SOSARs with performance conditions were outstanding, and all were determined to have met the performance conditions.

The total intrinsic value of SOSARs exercised during the years ended December 31, 2018, 2017 and 2016 was $35,907, $4,296, and $15,946, respectively. Unrecognized stock-based compensation expense for SOSARs as of December 31, 2018 was $34,826 and is expected to be recognized over a weighted average period of 1.7 years.

The weighted average assumptions utilized in the Black-Scholes option-pricing model to estimate the fair value of SOSAR awards granted each year were as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Risk-free interest rate | 2.4% | 1.6% | 1.0% |
| Expected life (years) | 3.9 | 3.7 | 3.5 |
| Expected dividend yield | 0.0% | 0.0% | 0.0% |
| Volatility | 32.2% | 29.9% | 32.2% |
| Weighted-average Black-Scholes fair value per share at date of grant | $77.61 | $105.97 | $117.48 |

The risk-free interest rate is based on U.S. Treasury rates for instruments with similar terms, and the expected life assumption is based on our historical data. We have not paid dividends to date and do not plan to pay dividends in the near future. The volatility assumption is based on our historical data and implied volatility.

*Non-Vested Stock Awards (RSUs)*

A summary of non-vested stock award activity under the 2011 Stock Incentive Plan is as follows (in thousands, except per share data):

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value Per Share | Shares | Weighted Average Grant Date Fair Value Per Share | Shares | Weighted Average Grant Date Fair Value Per Share |
| Outstanding, beginning of year | 213 | $ 519.62 | 125 | $606.24 | 116 | $ 511.88 |
| Granted | 141 | $305.00 | 127 | $ 436.36 | 90 | $509.05 |
| Vested | (39) | $ 732.65 | (8) | $454.84 | (7) | $605.83 |
| Forfeited or cancelled | (91) | $ 473.64 | (31) | $502.46 | (74) | $529.54 |
| Expired | – | $ – | – | $ – | – | $ – |
| Outstanding, end of year | 224 | $ 373.32 | 213 | $ 519.62 | 125 | $606.24 |

There were 141 non-vested stock awards with a weighted average grant date fair value per share of $305 that were vested and expected to vest as of December 31, 2018. Unrecognized stock-based compensation expense for non-vested stock awards we have determined are probable of vesting was $33,113 as of December 31, 2018, and is expected to be recognized over a weighted average period of 1.6 years. The fair value of shares earned as of the vesting date during the years ended December 31, 2018, 2017, and 2016 was $13,509, $3,524, and $2,787, respectively.

*Non-Vested Performance Stock Awards (PSUs)*

As of December 31, 2018, 70 of the outstanding non-vested stock awards were subject to performance and/or market conditions, in addition to service vesting conditions. During the year ended December 31, 2018, we awarded 29 performance shares that are subject to service and performance vesting conditions. The shares had a weighted-average grant date fair value was $328.74 per share and vest based on our growth in comparable restaurant sales and average restaurant margin over defined periods. The quantity of shares that will vest range from 0% to 300% of the targeted number of shares. If the defined minimum targets are not met, then no shares will vest.

During the year ended December 31, 2017, we awarded 36 performance shares that are subject to service, market and performance vesting conditions. Two-thirds of the shares had a grant date fair value of $485.53 per share and have vesting criteria based on the price of our common stock reaching certain targets for a consecutive number of days during the three-year period starting on the grant date, with the quantity of shares that vest ranging from 0% to 350% of the targeted number of shares. The remaining one-third of the shares had a grant date fair value of $427.61 and have vesting criteria based on reaching certain comparable restaurant sales increases during the three-year period starting on January 1, 2017, with the quantity of

shares that vest ranging from 0% to 300% of the targeted number of shares. If the defined minimum targets are not met, then no shares will vest.

During the year ended December 31, 2016, we awarded 73 performance shares, net of cancellations, that are subject to both service and market vesting conditions. The quantity of shares that vest will range from 0% to 400% of a targeted number of shares, and will be determined based on the price of our 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, 2018, 62 stock awards that were subject to service and performance or market conditions were forfeited.

We adjusted our estimates of the non-vested stock awards expected to vest, which had the following reduction on our expense and earnings per share (dollars in thousands, except per share data) in each of the following years:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cumulative change in expense | $(79) | $(1,410) | $(6,031) |
| Net of tax impact from cumulative change in expense | $(58) | $ (857) | $(3,332) |
| Impact on basic earnings per share | $ – | $ 0.03 | $ 0.11 |
| Impact on diluted earnings per share | $ – | $ 0.03 | $ 0.11 |

No stock awards with market conditions were granted during the year ended December 31, 2018. Measurement of the grant date fair value of stock awards with market conditions in prior years included 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:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Risk-free interest rate | N/A | 1.5% | 0.9% |
| Expected life (years) | N/A | 3.0 | 3 |
| Expected dividend yield | N/A | 0.0% | 0.0% |
| Volatility | N/A | 29.9% | 31.4% |

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 the stock awards.

In May 2018, as a result of the transition of employees in connection with the corporate restructuring described in Note 5. "Corporate Restructuring Costs", we reduced our estimate of the number of certain SOSAR and RSU awards that we expect to vest, resulting in a cumulative adjustment to reduce expense of $5,360. In July 2018, we modified service requirements for certain SOSAR and RSU awards for approximately 340 employees, resulting in additional expense of approximately $6,900, of which $6,705 has been recognized during the year ended December 31, 2018. We expect to incur additional expense of $200 in 2019.

## 10. Employee Benefit Plans

We maintain the Chipotle Mexican Grill 401(k) Plan (the "401(k) Plan"). We match 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 Chipotle. For the years ended December 31, 2018, 2017, and 2016, matching contributions totaled approximately $6,090, $6,072 and $5,939, respectively.

We also maintain the Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan (the "Deferred Plan") which covers our eligible employees. 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, 2018 and 2017 were $10,872 and $19,887, respectively, and are included in other liabilities on the consolidated balance sheet. We match 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, 2018, 2017, and 2016, we made deferred compensation matches of $152, $199, and $225, respectively, to the Deferred Plan.

We have elected to fund our deferred compensation obligation 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 on the consolidated balance sheet. Fair value of mutual funds is

measured using Level 1 inputs (quoted prices for identical assets in active markets). The fair values of the investments in the rabbi trust were $10,872 and $19,887 as of December 31, 2018 and 2017, respectively. The realized and unrealized holding gains and losses related to these investments, as well as the offsetting deferred compensation expense, are recorded in general and administrative expenses on the consolidated statement of income.

We also offer an employee stock purchase plan ("ESPP"). Employees become eligible to participate after one year of service with Chipotle and may contribute up to 15% of their base earnings, subject to an annual maximum dollar amount, toward the monthly purchase of our common stock. The purchase price is 95% of the fair market value of the stock on the last trading date of the monthly exercise period. Under the ESPP, 250 shares of common stock have been authorized and reserved for issuances to eligible employees, of which 246 represent shares that were authorized for issuance but not issued at December 31, 2018. For the years ended December 31, 2018, 2017, and 2016, the number of shares issued each year under the ESPP was less than 1.

## 11. Leases

Our restaurants are primarily operated 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 are typically in five-year increments. Typically, our leases include 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. Our leases generally provide for the payment of common area maintenance, property taxes, insurance and various other use and occupancy costs. In addition, we are the lessee under leases covering certain offices.

Contractually required future minimum cash lease payments under existing operating leases as of December 31, 2018 are as follows:

| | |
|---|---|
| 2019 | $ 294,191 |
| 2020 | 296,579 |
| 2021 | 294,941 |
| 2022 | 295,290 |
| 2023 | 290,980 |
| Thereafter | 2,478,397 |
| Total minimum lease payments | $3,950,378 |

Total minimum lease payments have not been reduced by minimum sublease rentals of $11,790 due in the future under our subleases. During fiscal 2018, 2017 and 2016, we recognized sublease income of $2,530, $2,214, and $2,074, respectively. Further, minimum lease payments include $90,484 of legally binding minimum lease payments for leases executed, but the lease term has not yet commenced.

Rental expense consists of the following:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Minimum rentals | $294,854 | $278,812 | $255,955 |
| Contingent rentals | $ 2,714 | $ 2,317 | $ 1,811 |
| Total | $297,568 | $ 281,129 | $257,766 |

We have six sale and leaseback transactions. These transactions do not qualify for sale leaseback accounting because of our 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 $2,390 and $2,630 as of December 31, 2018, and 2017, 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.

## 12. Earnings Per Share

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net income | $176,553 | $176,253 | $22,938 |
| Shares: | | | |
| Weighted-average number of common shares outstanding | 27,823 | 28,491 | 29,265 |
| Dilutive stock awards | 139 | 70 | 505 |
| Diluted weighted-average number of common shares outstanding | 27,962 | 28,561 | 29,770 |
| Basic earnings per share | $ 6.35 | $ 6.19 | $ 0.78 |
| Diluted earnings per share | $ 6.31 | $ 6.17 | $ 0.77 |

The following stock awards were excluded from the calculation of diluted EPS:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Stock awards subject to performance conditions | 95 | 217 | 263 |
| Stock awards that were antidilutive | 1,741 | 1,695 | 1,316 |
| Total stock awards excluded from diluted earnings per share | 1,836 | 1,912 | 1,579 |

## 13. Commitments and Contingencies

### *Purchase Obligations*

We enter 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*

*Data Security Incident*

In April 2017, our information security team detected unauthorized activity on the network that supports payment processing for our restaurants, and immediately began an investigation with the help of leading computer security firms. We also self-reported the issue to payment card processors and law enforcement. Our investigation detected malware designed to access payment card data from cards used at point-of-sale devices at most Chipotle restaurants, primarily in the period from March 24, 2017 through April 18, 2017. The malware searched for track data, which may include cardholder name, card number, expiration date, and internal verification codes; however, no other customer information was affected. We have removed the malware from our systems and continue to evaluate ways to enhance our security measures. We expect that substantially all of our investigation costs will be covered by insurance; however, we may incur legal expenses in excess of our insurance coverage limits associated with the data security incident in future periods. We will recognize these expenses as services are received.

As of December 31, 2018, we had a balance of $29,289 included in accrued liabilities on the consolidated balance sheet which represents an estimate of potential liabilities associated with anticipated claims and assessments by payment card networks in connection with the data security incident. We may ultimately be subject to liabilities greater than or less than the amount accrued.

*Litigation Arising from Data Security Incident*

On May 4, 2017, Bellwether Community Credit Union filed a purported class action complaint in the United States District Court for the District of Colorado alleging that we negligently failed to provide adequate security to protect the payment card information of customers of the plaintiffs and those of other similarly situated credit unions, banks and other financial institutions alleged to be part of the putative class, causing those institutions to suffer financial losses. The complaint also claims we were negligent per se based on alleged violations of Section 5 of the Federal Trade Commission Act and similar state laws. The plaintiff seeks monetary damages, injunctive relief and attorneys' fees. On May 26, 2017, Alcoa Community Credit Union filed a purported class action complaint in the U. S. District Court for the District of Colorado making substantially the same allegations as the Bellwether complaint and seeking substantially the same relief. The Bellwether and Alcoa cases have been consolidated and will proceed as a single action. On October 24, 2018, the court issued an order granting in part and denying in part our motion to dismiss the consolidated complaint, dismissing all claims other than those brought under state unfair competition laws in California and New Hampshire and plaintiffs' request for declaratory relief. On December 10, 2018, the plaintiffs filed a second amended consolidated complaint, and on January 25, 2019 we filed a motion to dismiss the second amended complaint.

On June 9, 2017, Todd Gordon filed a purported class action complaint in the U. S. District Court for the District of Colorado alleging that we negligently failed to provide adequate security to protect the payment card information of the plaintiff and other similarly situated customers alleged to be part of the putative class, causing some customers to suffer alleged injuries and others to be at risk of possible future injuries. The complaint also claims we were negligent per se based on alleged violations of Section 5 of the Federal Trade Commission Act and similar state laws, and also alleges breach of contract, unjust enrichment, and violations of the Arizona Consumer Fraud Act. Additionally, on August 21, 2017, Greg Lawson and Judy Conard filed a purported class action complaint in the U. S. District Court for the District of Colorado making allegations substantially similar to those in the Gordon complaint, and stating substantially similar claims as well as claims under the Colorado Consumer Protection Act. The Gordon and Lawson/Conard cases have been consolidated and will proceed as a single action. On September 26, 2018, the court issued an order granting in part, and denying in part, our motion to dismiss the consolidated complaint, including a dismissal of the negligence and unjust enrichment claims in their entirety.

We intend to continue to vigorously defend each of the aforementioned cases, but it is not possible at this time to reasonably estimate the outcome of or any potential liability from these cases. Although certain fees and costs associated with the data security incident and the aforementioned litigation to date have been paid or reimbursed by our cyber liability insurer, the ultimate amount of liabilities arising from the litigation may be in excess of the limits of our applicable insurance coverage and the amounts included in accrued liabilities in relation to the data security incident.

*Receipt of Grand Jury Subpoenas*

On January 28, 2016, we were served with a Federal Grand Jury Subpoena from the U.S. District Court for the Central District of California in connection with an official criminal investigation being conducted by the U.S. Attorney's Office for the Central District of California, in conjunction with the U.S. Food and Drug Administration's Office of Criminal Investigations. The subpoena required the production of documents and information related to company-wide food safety matters dating back to January 1, 2013. We received a follow-up subpoena on July 19, 2017, requesting information related to an illness incident associated with a single Chipotle restaurant in Sterling, Virginia, and another follow-up subpoena on February 14, 2018 requesting information related to an illness incident associated with a single Chipotle restaurant in Los Angeles, California. We intend to continue to fully cooperate in the investigation. It is not possible at this time to determine whether we will incur, or to reasonably estimate the amount of, any fines or penalties in connection with the investigation pursuant to which the subpoenas were issued.

*Shareholder Class Actions*

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 our common stock between February 4, 2015 and January 5, 2016. The complaint purports to state claims against us, each of the co-chief executive officers serving during the claimed class period and the Chief Financial Officer under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and related rules, based on our alleged failure during the claimed class period to disclose material information about our 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 our 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. On March 8, 2017, the court granted our motion to dismiss the complaint, with leave to amend. The plaintiff filed an amended complaint on April 7, 2017. On March 22, 2018, the court granted our motion to dismiss, with prejudice. On April 20, 2018, the plaintiffs filed a motion for relief from the judgment and seeking leave to file a third amended complaint, and on November 20, 2018, the court denied the motion. On December 20, 2018, the plaintiff initiated an appeal to the U.S. Court of Appeals for the Second Circuit.

Additionally, on July 20, 2017, Elizabeth Kelley filed a complaint in the U.S. District Court for the District of Colorado on behalf of a purported class of purchasers of shares of our common stock between February 5, 2016 and July 19, 2017, with claims and factual allegations similar to the Ong complaint, based primarily on media reports regarding illnesses associated with a Chipotle restaurant in Sterling, Virginia. We filed a motion to dismiss the amended complaint on February 12, 2018, and a ruling on the motion remains pending.

We intend to continue to vigorously defend the Ong and Kelley cases, but it is not possible at this time to reasonably estimate the outcome of or any potential liability from either of these cases.

*Miscellaneous*

We are involved in various other claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of these actions will have a material adverse effect on our 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 we incur greater liabilities than we currently anticipate, could materially and adversely affect our business, financial condition, results of operations and cash flows.

### 14. Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data:

| | 2018 | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $1,148,397 | $1,266,520 | $1,225,007 | $1,225,061 |
| Operating income | $ 92,808 | $ 67,957 | $ 57,991 | $ 39,612 |
| Net income | $ 59,446 | $ 46,884 | $ 38,204 | $ 32,019 |
| Basic earnings per share | $ 2.13 | $ 1.69 | $ 1.37 | $ 1.15 |
| Diluted earnings per share | $ 2.13 | $ 1.68 | $ 1.36 | $ 1.15 |

| | 2017 | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Revenue | $1,068,829 | $1,169,409 | $1,128,074 | $1,110,100 |
| Operating income | $ 73,173 | $ 106,725 | $ 30,867 | $ 60,029 |
| Net income | $ 46,120 | $ 66,730 | $ 19,610 | $ 43,793 |
| Basic earnings per share | $ 1.60 | $ 2.33 | $ 0.69 | $ 1.56 |
| Diluted earnings per share | $ 1.60 | $ 2.32 | $ 0.69 | $ 1.55 |

## 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, 2018, 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, 2018 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, 2018, 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, 2018, 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, 2018. This report follows.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Chipotle Mexican Grill, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited Chipotle Mexican Grill, Inc.'s internal control over financial reporting as of December 31, 2018, 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). In our opinion, Chipotle Mexican Grill, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 7, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Irvine, California
February 7, 2019

## ITEM 9B. OTHER INFORMATION

None.

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

Incorporated by reference from the definitive proxy statement for our 2019 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2018.

## ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the definitive proxy statement for our 2019 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2018.

## 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, 2018. 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 | 2,374,955 | $474.51 | 2,871,440 |
| Equity Compensation Plans Not Approved by Security Holders | None | N/A | None |
| Total | 2,374,955 | $474.51 | 2,871,440 |

(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 2,625,516 shares remaining available under the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan, and 245,924 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, 2018, 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 2019 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2018.

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

Incorporated by reference from the definitive proxy statement for our 2019 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2018.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from the definitive proxy statement for our 2019 annual meeting of shareholders, which will be filed no later than 120 days after December 31, 2018.

# PART IV

## 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

| | | Description of Exhibit Incorporated Herein by Reference | | | | |
|---|---|---|---|---|---|---|
| Exhibit Number | Exhibit Description | 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 2011 Stock Appreciation Rights Agreement | 10-K | 001-32731 | February 17, 2011 | 10.2.10 | |
| 10.1.2† | Form of 2011 Performance-Based Stock Appreciation Rights Agreement | 10-K | 001-32731 | February 17, 2011 | 10.2.11 | |
| 10.1.3 | Stock Appreciation Rights Agreement between Steve Ells and Chipotle Mexican Grill, Inc. | 10-Q | 001-32731 | April 26, 2018 | 10.1 | |
| 10.2† | Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan | 8-K | 001-32731 | May 24, 2018 | 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 | 10-K | 001-32731 | February 7, 2017 | 10.2.4 | |
| 10.2.5† | Form of 2014 Performance-Based Stock Appreciation Rights Agreement | 10-K | 001-32731 | February 7, 2017 | 10.2.5 | |
| 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 | |

| Exhibit Number | Exhibit Description | Description of Exhibit Incorporated Herein by Reference | | | | |
|---|---|---|---|---|---|---|
| | | Form | File No. | Filing Date | Exhibit Number | Filed Herewith |
| 10.2.8.1† | Amendment to 2016 Performance Share Agreement | 8-K | 001-32731 | March 30, 2017 | 10.1 | |
| 10.2.11† | Form of 2017 Performance Share Agreement | 10-Q | 001-32731 | July 26, 2017 | 10.2 | |
| 10.2.13 | Retention Agreement, dated January 9, 2018, between Jack Hartung and Chipotle Mexican Grill, Inc. | 8-K | 001-32731 | January 12, 2018 | 10.1 | |
| 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 | |
| 10.3.1 | Retention Agreement, dated January 9, 2018, between Mark Crumpacker and Chipotle Mexican Grill, Inc. | 8-K | 001-32731 | January 12, 2018 | 10.2 | |
| 10.4† | Board Pay Policies | 10-Q | 001-32731 | July 26, 2017 | 10.1 | |
| 10.4.2 | Board Pay Policies effective May 22, 2018 | 8-K | 001-32731 | May 24, 2018 | 10.2 | |
| 10.4.3 | Retention Agreement, dated January 9, 2018, between Scott Boatwright and Chipotle Mexican Grill, Inc. | 10-Q | 001-32731 | April 26, 2018 | 10.4 | |
| 10.5† | Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan | 10-K | 001-32731 | February 23, 2007 | 10.11 | |
| 10.5.1† | Supplemental Deferred Investment Plan | 10-Q | 001-32731 | July 27, 2018 | 10.3 | |
| 10.5.2 | Retention Agreement, dated January 9, 2018, between Curt Garner and Chipotle Mexican Grill, Inc. | 10-Q | 001-32731 | April 26, 2018 | 10.5 | |
| 10.6† | Form of Director and Officer Indemnification Agreement | 8-K | 001-32731 | March 21, 2007 | 10.1 | |
| 10.6.1 | Offer Letter, dated February 11, 2018, between Brian R. Niccol and Chipotle Mexican Grill, Inc. | 8-K | 001-32731 | February 15, 2018 | 10.1 | |
| 10.7† | Chipotle Mexican Grill, Inc. Employee Stock Purchase Plan | 10-K | 001-32731 | February 10, 2012 | 10.11 | |
| 10.7.1 | Non-Plan Inducement SOSARs Agreement between Brian R. Niccol and Chipotle Mexican Grill, Inc. | S-8 | 33-223467 | March 6, 2018 | 4.3 | |
| 10.8† | Chipotle Mexican Grill, Inc. 2014 Cash Incentive Plan | 10-Q | 001-32731 | July 19, 2013 | 10.1 | |
| 10.8.1 | Non-Plan Inducement RSUs Agreement between Brian R. Niccol and Chipotle Mexican Grill, Inc. | S-8 | 33-223467 | March 6, 2018 | 4.4 | |
| 10.9 | Separation Agreement, dated March 13, 2018, between Mark Crumpacker and Chipotle Mexican Grill, Inc. | 8-K | 001-32731 | March 14, 2018 | 10.1 | |

| Exhibit Number | Exhibit Description | Description of Exhibit Incorporated Herein by Reference | | | | |
|---|---|---|---|---|---|---|
| | | Form | File No. | Filing Date | Exhibit Number | Filed Herewith |
| 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. | 10-K | 001-32731 | February 7, 2017 | 10.11 | |
| 10.11.1 | Form of 2018 CEO SOSARs Agreement | 8-K/A | 001-32731 | April 3, 2018 | 10.2 | |
| 10.12 | Executive Agreement dated May 29, 2017 between Chipotle Mexican Grill, Inc. and Scott Boatwright | 8-K | 001-32731 | September 15, 2017 | 10.1 | |
| 10.12.1 | Form of 2018 Premium-priced SOSARs Agreement | 8-K/A | 001-32731 | April 3, 2018 | 10.3 | |
| 10.13 | Executive Chairman Agreement dated November 28, 2017 between Chipotle Mexican Grill, Inc. and Steve Ells | 8-K | 001-32731 | December 1, 2017 | 10.1 | |
| 10.13.1 | Offer Letter, dated March 9, 2018, between Christopher Brandt and Chipotle Mexican Grill, Inc. | 10-Q | 001-32731 | April 26, 2018 | 10.13 | |
| 10.14 | Form of 2018 Stock Appreciation Rights Agreement | 10-Q | 001-32731 | April 26, 2018 | 10.14 | |
| 10.15 | Form of 2018 Restricted Stock Units Agreement | 10-Q | 001-32731 | April 26, 2018 | 10.15 | |
| 10.16 | Form of 2018 Restricted Stock Units Agreement – 12 month | 10-Q | 001-32731 | April 26, 2018 | 10.16 | |
| 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 |

| Exhibit Number | Exhibit Description | Description of Exhibit Incorporated Herein by Reference | | | | |
|---|---|---|---|---|---|---|
| | | Form | File No. | Filing Date | Exhibit Number | Filed Herewith |
| 101 | The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheet as of December 31, 2018 and December 31, 2017, (ii) Consolidated Statement of Income for the years ended December 31, 2018, 2017 and 2016, (iii) Consolidated Statement of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to the Consolidated Financial Statements | – | – | – | – | X |

## 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 7, 2019

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Brian Niccol 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/ Brian Niccol<br>**Brian Niccol** | February 7, 2019 | Chief Executive Officer<br>(principal executive officer) |
| /s/ John R. Hartung<br>**John R. Hartung** | February 7, 2019 | Chief Financial Officer<br>(principal financial and accounting officer) |
| /s/ Steve Ells<br>**Steve Ells** | February 7, 2019 | Chairman of the Board of Directors |
| /s/ Albert S. Baldocchi<br>**Albert S. Baldocchi** | February 7, 2019 | Director |
| /s/ Paul Cappuccio<br>**Paul Cappuccio** | February 7, 2019 | Director |
| /s/ Neil W. Flanzraich<br>**Neil W. Flanzraich** | February 7, 2019 | Director |
| /s/ Robin S. Hickenlooper<br>**Robin S. Hickenlooper** | February 7, 2019 | Director |
| /s/ Kimbal Musk<br>**Kimbal Musk** | February 7, 2019 | Director |
| /s/ Ali Namvar<br>**Ali Namvar** | February 7, 2019 | Director |
| /s/ Matthew Paull<br>**Matthew Paull** | February 7, 2019 | Director |

Chipotle Mexican Grill, Inc.
610 Newport Center Drive
Newport Beach, CA 92660

April 1, 2019

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Chipotle Mexican Grill, Inc., which will be held on May 21, 2019 at 8:00 a.m. local time at the Hyatt Regency Newport Beach, 1107 Jamboree Road, Newport Beach, CA 92660 in the Garden II ballroom. Details of the business to be conducted at the annual meeting are given in the notice of meeting and proxy statement that follow.

Your vote is important. Whether or not you plan to attend the annual meeting, we encourage you to vote by telephone, by Internet or by signing, dating and returning your proxy card by mail. You may also vote in person at the annual meeting. Full instructions are contained in this proxy statement or in the Notice of Internet Availability of Proxy Materials that was sent to you.

On behalf of the Board of Directors and Chipotle's management, thank you for your commitment to Chipotle.

Sincerely,

Brian Niccol

Chief Executive Officer

# NOTICE OF MEETING

The 2019 annual meeting of shareholders of Chipotle Mexican Grill, Inc. will be held on May 21, 2019 at 8:00 a.m. local time at the Hyatt Regency Newport Beach, 1107 Jamboree Road, Newport Beach, CA 92660 in the Garden II ballroom.

Shareholders will consider and act on the following matters:

1. Election of the ten director nominees named in this proxy statement, 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 (known as "say-on-pay");
3. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019; and
4. Such other business as may properly come before the meeting or any adjournments or postponements of the meeting.

Information about these matters is contained in the proxy statement that accompanies this notice.

Only stockholders of record at the close of business on March 26, 2019 are entitled to notice of and to vote at the annual meeting. This Notice and the accompanying Proxy Statement are first being distributed to stockholders on or about April 1, 2019.

If you would like to attend the annual meeting in person, you will need to obtain an admission ticket in advance. You can obtain a ticket by following the instructions beginning on page 60.

***Your vote is important. Please note that if you hold your shares through a broker, your broker cannot vote your shares on the election of directors or on the approval, on an advisory basis, of our executive compensation unless they have your specific instructions on how to vote. In order for your vote to be counted, please make sure that you submit your vote to your broker.***

**By order of the Board of Directors**

Executive Chairman of the Board

April 1, 2019

# Proxy Statement Summary

| INFORMATION ABOUT THE ANNUAL MEETING | |
|---|---|
| **Date and Time:** | **Tuesday, May 21, 2019**<br>**8:00 am (PDT)** |
| **Location:** | **Garden II ballroom**<br>**Hyatt Regency Newport Beach**<br>**1107 Jamboree Road**<br>**Newport Beach CA 92660** |
| **Record Date for Shareholders entitled to vote:** | **March 26, 2019** |

| MATTERS TO BE VOTED ON AT THE ANNUAL MEETING AND BOARD RECOMMENDATIONS | |
|---|---|
| **1. Election of the ten Director nominees named in this proxy statement (page 6)** | For |
| **2. Advisory Say on Pay vote (page 23)** | For |
| **3. Ratification of Ernst & Young LLP as independent auditors (page 24)** | For |

**HIGHLIGHTS OF DIRECTOR NOMINEES**

| NAME | YEARS OF SERVICE | INDEPENDENT | BOARD RECOMMENDATION | AUDIT COMMITTEE | COMPENSATION COMMITTEE | NOMINATING & CORPORATE GOVERNANCE COMMITTEE |
|---|---|---|---|---|---|---|
| **Albert Baldocchi†** | 22 | Yes | **FOR** | **Chairperson** | | |
| **Paul Cappuccio** | 2 | Yes | **FOR** | ✓ | | **Chairperson** |
| **Steve Ells**<br>*Executive Chairman* | 23 | No | **FOR** | | | |
| **Patricia Fili-Krushel[(1)]** | – | Yes | **FOR** | | | |
| **Neil Flanzraich**<br>*Lead Independent Director* | 12 | Yes | **FOR** | | **Chairperson** | ✓ |
| **Robin Hickenlooper** | 2 | Yes | **FOR** | ✓ | | |
| **Scott Maw[(1)]** | - | Yes | **FOR** | | | |
| **Ali Namvar** | 2 | Yes | **FOR** | | ✓ | ✓ |
| **Brian Niccol** | 1 | No | **FOR** | | | |
| **Matthew Paull** | 2 | Yes | **FOR** | | ✓ | |

† - Designated as "Audit Committee Financial Expert" under SEC rules.

(1) Ms. Fili-Krushel and Mr. Maw were elected to the Board on March 13, 2019 and will be considered for appointment to one or more Committees after the annual meeting.

| SUMMARY OF CORPORATE GOVERNANCE HIGHLIGHTS |
| --- |
| Nine of the 11 members on our current Board of Directors are independent. |
| Independent directors are led by an independent Lead Director. |
| All directors stand for re-election on an annual basis. |
| Directors are elected by majority vote in uncontested elections and any director who does not receive a majority of votes cast is required to submit his or her resignation, for consideration by the Board. |
| Independent Board members meet in executive session at each quarterly Board meeting. |
| Board and Committee performance is reviewed in an annual self-assessment, with reporting to and evaluation by the full Board. |
| We do not have a shareholder rights plan or "poison pill." |
| All executive officers and directors are prohibited from hedging/pledging shares of our common stock. |
| Bylaws contain proxy access provisions, which enables qualifying shareholders to nominate directors for election to our Board. |
| We have robust stock ownership requirements for executive officers and directors, with the highest CEO and CFO ownership requirements amongst our peer group of companies, as described in "Compensation Discussion and Analysis". |
| Bylaws permit holders of at least 25% of our outstanding common stock to call special meetings of shareholders. |
| See the "Compensation Discussion and Analysis" section of this proxy statement for significant compensation policies and procedures we employ to motivate our employees to build shareholder value and promote the interests of all our shareholders. |

# Table of Contents

**Proxy Statement Summary** i

**Annual Meeting Information** 1

**Beneficial Ownership of Our Common Stock** 4

**Proposal 1 — Election of Directors** 6

**Information Regarding the Board of Directors** 6

- Biographical Information 6
- Board Qualifications, Skills and Attributes 11
- Board Selection and Refreshment 12
- Independence of Directors 12
- Committees of the Board 13
- 2018 Director Compensation 15

**Corporate Governance** 16

- Chairman of the Board 16
- Lead Independent Director 17
- Board Performance and Self-Evaluation Process 17
- How to Contact the Board of Directors 17
- Executive Sessions 17
- Director Nomination Process 18
- Shareholder Engagement 19
- Policies and Procedures for Review and Approval of Transactions with Related Persons 21
- Role of the Board of Directors in Risk Oversight 21
- Sustainability and Corporate Responsibility 22

**Proposal 2 — An Advisory Vote to Approve the Compensation of our Executive Officers as Disclosed in this Proxy Statement** 23

**Proposal 3 — Ratification of Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm** 24

**Independent Auditors' Fee** 25

**Audit Committee Report** 25

**Policy for Pre-Approval of Audit and Permitted Non-Audit Services** 25

**Executive Officers** 27

**Letter from the Compensation Committee of our Board of Directors** 28

**Compensation Discussion and Analysis** 29

- Executive Summary 29
- CEO Transition: Timeline of Events and Compensation Decisions 31

# Table of Contents
(continued)

Executive Compensation Philosophy and Objectives 33

Executive Compensation Program Components and Structures 34

Variable Pay 34

Factors in Setting Executive Officer Pay 35

Roles and Responsibilities of the Committee, Compensation Consultant and the CEO in Setting Executive Officer Compensation 35

Role of Market Data and Our Peer Group 36

2018 Compensation Program 37

Executive Stock Ownership Guidelines 42

Prohibition on Hedging and Pledging 43

Agreements with our Named Executive Officers 43

Compensation Program Risk 45

Accounting Considerations 45

**Compensation Committee Report 45**

**2018 Compensation Tables 46**

2018 Summary Compensation Table 46

Grants of Plan-Based Awards in 2018 48

Terms of 2018 Annual Performance Share Units Awards 49

Terms of 2018 Annual SOSAR Awards 49

Outstanding Equity Awards at Fiscal Year End 2018 50

Option Exercises and Stock Vested in Fiscal 2018 51

Non-Qualified Deferred Compensation for 2018 51

Potential Payments Upon Termination or Change-in-Control 52

**CEO Pay Ratio 56**

**Section 16(a) Beneficial Ownership Reporting Compliance 57**

**Certain Relationships and Related Party Transactions 58**

**Shareholder Proposals and Nominations for 2020 Annual Meeting 59**

**Inclusion of Director Nominations in Our Proxy Statement and Proxy Card under Our Proxy Access Bylaws 59**

**Availability of SEC Filings, Corporate Governance Guidelines, Code of Conduct, Codes of Ethics and Committee Charters 59**

**Delivery of Materials to Shareholders with Shared Addresses 59**

**Attendance at the Meeting 60**

**Miscellaneous 60**

## ANNUAL MEETING INFORMATION

This proxy statement contains information related to the annual meeting of shareholders of Chipotle Mexican Grill, Inc. to be held on Tuesday, May 21, 2019, beginning at 8:00 a.m. (PDT) at the Hyatt Regency Newport Beach, 1107 Jamboree Road, Newport Beach, CA 92660 in the Garden II ballroom. 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 April 1, 2019.

### 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 26, 2019, 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 26, 2019, there were 27,725,468 shares of common stock outstanding and entitled to vote.

### What am I voting on?

You will be asked to vote on three proposals:

| | | Board Recommendation: |
|---|---|---|
| **PROPOSAL 1 -** | Election of the ten director nominees named in this proxy statement | 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 -** | Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019. | FOR |

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 and **FOR** Proposals 2 and 3.

### 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 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 your broker. Only the proposal to ratify the appointment of our independent registered public accounting firm is considered a routine matter for this purpose. None of the other proposals presented in this proxy statement are considered routine matters. Accordingly, if you hold your shares through a brokerage firm and do not provide timely voting instructions, your shares will be voted, if at all, only on Proposal 3. **We strongly encourage you to exercise your right to vote in the election of directors and other matters to be voted on at the annual meeting.**

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

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

- re-submitting your vote on the Internet;
- if you are a shareholder of record, by sending a written notice of revocation to our corporate Secretary at our principal offices, 610 Newport Center Dr., Suite 1300, Newport Beach, CA 92660; 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 written authorization to vote at the meeting.

### 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 that begin on page 60. 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 17, 2019. 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 to be used 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 and 3** — The say-on-pay advisory vote and ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019 require the affirmative vote of a majority of the voting power present at the annual meeting and entitled to vote in order to be approved. Abstentions represent shares entitled to vote, and therefore will have the same effect as a vote "AGAINST" a proposal. Broker non-votes, which are expected to occur with respect to the say-on-pay vote (Proposal 2), are not counted as entitled to vote and therefore will have no effect on the outcome of any of these proposals.

Because the say-on-pay vote (Proposal 2) is advisory, it will not be binding on the Board or the company. However, the Board will review the voting results and take them into consideration when making future decisions regarding

executive compensation. Ratification of our appointment of independent auditors is not required and therefore the vote on Proposal 3 is also advisory only. See Proposal 3 for additional information about the effect of the voting outcome on this proposal.

### *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, considering the Committee's recommendation, and publicly disclose (by a press release and filing an appropriate disclosure with the SEC) its decision regarding the resignation, and if such resignation is rejected the rationale behind the decision, within 90 days following certification of the election results. The Committee in making its recommendation and the Board in making its decision each may consider any factors and other information that they consider appropriate and relevant.

### How is this proxy statement being delivered?

We have elected to deliver our proxy materials electronically over the Internet as permitted by rules of the Securities and Exchange Commission, or SEC. As required by those rules, we are distributing to our shareholders of record and beneficial owners as of the close of business on March 26, 2019 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 shows the beneficial ownership of shares of our common stock as of March 26, 2019 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 2018 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 27,725,468 outstanding shares of common stock as of March 26, 2019. 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 26, 2019 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 | Shares Beneficially Owned (Outstanding) | Shares Beneficially Owned (Right to Acquire) | Total Shares Beneficially Owned | Percentage of Class Beneficially Owned |
|---|---|---|---|---|
| Beneficial holders of 5% or more of outstanding common stock | | | | |
| The Vanguard Group, Inc.[1] | 2,911,960 | – | 2,911,960 | 10.50% |
| Pershing Square Capital Management L.P.[2] | 1,880,799 | – | 1,880,799 | 6.78% |
| BlackRock, Inc.[3] | 1,615,632 | – | 1,615,632 | 5.83% |
| Susquehanna Securities[4] | 1,441,778 | – | 1,441,778 | 5.20% |
| Directors and Executive Officers | | | | |
| Brian Niccol[5] | 5,065 | 55,976 | 61,041 | * |
| Steve Ells[6] | 208,339 | 175,000 | 383,339 | 1.38% |
| Jack Hartung[7] | 35,272 | 60,000 | 95,272 | * |
| Curt Garner[8] | – | 48,500 | 48,500 | * |
| Scott Boatwright[9] | – | – | – | – |
| Christopher Brandt[9] | – | – | – | – |
| Albert Baldocchi[10][11] | 72,918 | 792 | 73,710 | * |
| Paul Cappuccio[12] | 500 | 277 | 777 | * |
| Patricia Fili-Krushel[13] | – | – | – | * |
| Neil Flanzraich[10] | 3,631 | 792 | 4,423 | * |
| Robin Hickenlooper[12] | – | 277 | 277 | * |
| Scott Maw[13] | – | – | – | * |
| Kimbal Musk[14] | 501 | 542 | 1,043 | * |
| Ali Namvar[12][15] | 3,000 | 277 | 3,277 | * |
| Matthew Paull[12] | 516 | 277 | 793 | * |
| All directors and executive officers as a group (19 people) | 324,677 | 286,734 | 611,411 | 2.21% |

* Less than one percent.

(1) Based solely on a report on Schedule 13G/A filed on January 10, 2019. The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, Pennsylvania, 19355. The Vanguard Group, Inc. has sole voting power with respect to 30,167 shares of common stock, shared voting power with respect to 6,000 shares of common stock, sole dispositive power with respect to 2,876,031 shares of common stock and shared dispositive power with respect to 35,929 shares of common stock.

(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 August 30, 2018, as well as a Form 4 filed by Pershing Square on February 14, 2019. 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 4, 2019. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York, 10022. BlackRock, Inc. has sole voting power with respect to 1,407,615 shares of common stock and sole dispositive power with respect to 1,615,632 shares of common stock.

(4) Based solely on a report on Schedule 13G/A filed on February 14, 2019 by G1 Execution Services, LLC, Susquehanna Investment Group and Susquehanna Securities. The address of Susquehanna Investment Group and Susquehanna Securities is 401 E. City Avenue, Suite 220, Bala Cynwyd, Pennsylvania, 19004 and the address of G1 Execution Services, LLC is 175 W. Jackson Blvd., Suite 1700, Chicago, IL 60604. G1 Execution Services, LLC, Susquehanna Investment Group and Susquehanna Securities have shared voting power and shared dispositive power with respect to 1,441,778 shares of common stock; G1 Execution Services, LLC has sole voting power and sole dispositive power with respect to 900 shares of common stock; Susquehanna Investment Group has sole voting power and sole dispositive power with respect to 42,578 shares of common stock; and Susquehanna Securities has sole voting power and sole dispositive power with respect to 1,398,300 shares of common stock.

(5) Shares beneficially owned by Mr. Niccol include 55,976 shares underlying vested stock appreciation rights.

(6) Shares beneficially owned by Mr. Ells include 175,000 shares underlying vested stock appreciation rights.

(7) 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 60,000 shares underlying vested stock appreciation rights. Mr. Hartung disclaims beneficial ownership of the shares beneficially owned by his children.

(8) Shares beneficially owned by Mr. Garner include 48,500 shares underlying stock appreciation rights that are vested or will vest within 60 days of March 26, 2019.

(9) Mr. Boatwright joined us in May 2017 and Mr. Brandt joined us in April 2018. Both have equity awards that will begin to vest later in 2019 or 2020.

(10) Shares beneficially owned by Messrs. Baldocchi and Flanzraich include 792 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 he owns jointly with his spouse.

(12) Shares beneficially owned by Ms. Hickenlooper and Messrs. Cappuccio, Namvar and Paull include 277 shares underlying restricted stock units that will vest within 60 days of March 26, 2019.

(13) Ms. Fili-Krushel and Mr. Maw were elected to the Board on March 13, 2019. They will receive their first equity grant as directors on the date of the annual meeting.

(14) Shares beneficially owned by Mr. Musk include 542 shares underlying restricted stock units that are vested or will vest within 60 days of March 26, 2019.

(15) 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.

# Election of Directors

Our Board of Directors currently has eleven members, with each director serving for a one-year term. At the annual meeting, shareholders will vote on the ten nominees named below, each of whom is an incumbent member of the Board. Each of the director nominees was elected at the 2018 annual meeting of shareholders, except for Patricia Fili-Krushel and Scott Maw, who were elected to our Board of Directors on March 13, 2019.

One of our current directors, Kimbal Musk, has decided to not stand for re-election at the annual meeting. Mr. Musk has served on our Board since 2013 and Chipotle extends its heartfelt appreciation to Mr. Musk for the tremendous contributions he has made to our success through his leadership in innovation and experience with fast-growing companies. It is anticipated that the size of the Board will be reduced from eleven members to ten members following the annual meeting.

Each of the nominees was nominated by the Board upon the recommendation of the Nominating and Corporate Governance Committee and has consented to serve if elected. If any nominee is unable to serve or will not serve for any reason, the persons designated on the accompanying form of proxy will vote for other candidates in accordance with their judgment. We are not aware of any reason the nominees would not be able to serve if elected. Patricia Fili-Krushel initially was recommended to our Board by one of our incumbent directors, and Scott Maw initially was recommended to our Board by a member of our executive management team, and both were evaluated by an executive recruiting firm retained by the Board to assist in identifying, evaluating and conducting due diligence on potential director candidates. There are no family relationships among our directors, or between our directors and executive officers.

Re-election of each nominee for director requires that such nominee receive a majority of the votes cast FOR 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 each of the director nominees.**

## 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 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. The age of each director is as of May 21, 2019, the date of the annual meeting.

**DIRECTORS STANDING FOR RE-ELECTION**

**Albert S. Baldocchi**

**Age:** 65

**Director Since:** 1997

**Background:**

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.

**Qualifications:**

Mr. Baldocchi's extensive involvement with restaurant companies for more than 25 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

**Age:** 57

**Director Since:** 2016

**Background:**

Mr. Cappuccio served as Executive Vice President and General Counsel of Time Warner, Inc., a global media and entertainment company, from 2001 through 2018. In this capacity, he oversaw 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 (AOL). 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 and a Bachelor's degree from Georgetown University. He previously served on the board of directors of Central European Media Enterprises Ltd. (NasdaqGS: CETV) until December 2018.

**Qualifications:**

Mr. Cappuccio's contributions to the Board include strong experience in legal and regulatory compliance, risk management, and public company corporate governance.

## Steve Ells

**Age:** 53

**Director Since:** 1996

**Background:**

Mr. Ells founded Chipotle in 1993 and served as Chief Executive Officer until Mr. Niccol was appointed to that role in March 2018, at which time Mr. Ells became Executive Chairman. From 2009 through 2016, Mr. Ells 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' 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 graduate of the Culinary Institute of America.

**Qualifications:**

Mr. Ells' visionary thinking has led Chipotle to extraordinary accomplishments, such as growing from a single restaurant to over 2,500 and leading us to become the only national restaurant brand to prepare its food with no added flavors, colors or preservatives. This progressive 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.

**Patricia Fili-Krushel**

**Age**: 65

**Director Since:** March 2019

**Background:**

Ms. Fili-Krushel has served as Chief Executive Officer of the Center for Talent Innovation, a New York City-based think tank that focuses on global talent strategies since January 2019. From 2011 to 2016, she served as an executive at Comcast Corporation, a global media and technology company; as Division Chairman, NBCUniversal News Group; and as Executive Vice President, NBCUniversal. Prior to that, Ms. Fili-Krushel served as Executive Vice President and Chief Administrative Officer of Time Warner Inc., a global media and entertainment company, from 2001 to 2011; as President & CEO, WebMD Health Division, of WebMD Health Corp., from 2000 to 2001; as President, ABC Television Network, and President, ABC Daytime, Disney ABC Television Group, of The Walt Disney Company, a diversified worldwide entertainment company; and as Senior Vice President, Programming of Lifetime Entertainment Services, an entertainment and media company, from 1988 to 1992. She serves as a director of Dollar General Corporation (NYSE: DG). Ms. Fili-Krushel received a Bachelor's degree in communications from Saint John's University, and an MBA from Fordham University.

**Qualifications:**

Ms. Fili-Krushel has extensive leadership experience and her contributions to the Board include broad experience in managing global businesses, developing business strategy, talent management and creating organizational cultures. She also brings experience serving on the boards of directors of other public companies.

**Neil W. Flanzraich**

**Age:** 75

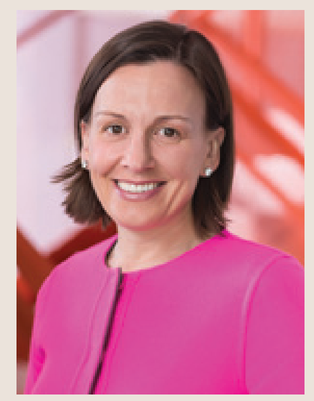
**Director Since:** 2007

**Background:**

Mr. Flanzraich is the Executive Chairman of Cantex Pharmaceuticals, Inc. (formerly ParinGenix, Inc.), a privately-owned biotech company, where he previously served as Chief Executive Officer and Chairman, and additionally, is the Executive Chairman of Alzheon, Inc., a privately-owned biotech company. He also 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 Senior Vice President, General 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) and served as its Lead Independent Director until it was acquired on March 1, 2017. Mr. Flanzraich also previously served as a director of a number of additional publicly-traded companies. He received an A.B. from Harvard College and a J.D. from Harvard Law School.

**Qualifications:**

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**

**Age:** 40

**Director Since:** 2016

**Background:**

Ms. Hickenlooper is Senior Vice President of Corporate Development at Liberty Media Corporation, an owner of media, communications and entertainment businesses, 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:**

Ms. Hickenlooper brings to the Board significant experience in marketing and new media, as well as public company corporate governance.

**Scott Maw**

**Age:** 51

**Director since:** March 2019

**Background:**

Until his retirement near the end of 2018, Mr. Maw was Executive Vice President and Chief Financial Officer at Starbucks Corporation, a global roaster and retailer of specialty coffee, from 2014. He also was Senior Vice President, Corporate Finance at Starbucks from 2012 to 2013, and Senior Vice President and Global Controller from 2011 to 2012. From 2010 to 2011, he was Senior Vice President and CFO of SeaBright Holdings, Inc., a specialty workers' compensation insurer. From 2008 to 2010, he was Senior Vice President and CFO of the Consumer Bank at JP Morgan Chase & Company. Prior to this, Mr. Maw held leadership positions in finance at Washington Mutual, Inc. from 2003 to 2008, and GE Capital from 1994 to 2003. Prior to joining GE Capital, Mr. Maw worked at KPMG's audit practice from 1990 to 1994. Since 2016, he has been a member of the board of directors of Avista Corporation (NYSE: AVA). Mr. Maw holds a Bachelor of Business Administration in Accounting from Gonzaga University.

**Qualifications:**

Mr. Maw brings to our Board expert knowledge in finance, accounting, risk management and public corporate governance and has extensive experience leading global teams.

**Ali Namvar**

**Age:** 49

**Director Since:** 2016

**Background:**

Mr. Namvar is a private investor focused on growth companies. He is also an advisory board member and partner emeritus of Pershing Square Capital Management, an investment firm that currently is a significant shareholder of Chipotle. From January 2006 through April 2018, Mr. Namvar was an active partner and senior member of the investment team at Pershing Square. Prior to joining Pershing Square, Mr. Namvar 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:**

Mr. Namvar has significant experience with investments in the restaurant industry as well as the overall consumer goods sector, and also brings to the Board a deep knowledge of finance, strategic transactions and investor relations.

**Brian Niccol**

**Age:** 45

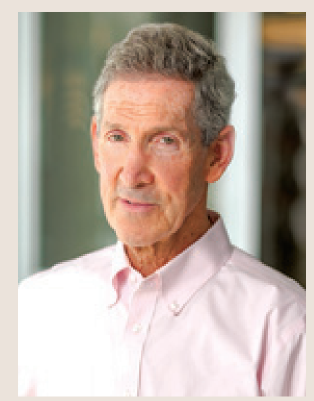
**Director Since:** 2018

**Background:**

Mr. Niccol has served as our Chief Executive Officer and a director since March 5, 2018. From January 2015 to February 2018 Mr. Niccol served as Chief Executive Officer of Taco Bell, a division of Yum! Brands, Inc., a global restaurant company. He joined Taco Bell in 2011 as Chief Marketing and Innovation Officer and served as President from 2013 to 2014. Prior to his service at Taco Bell, from 2005 to 2011 he served in various executive positions at Pizza Hut, another division of Yum! Brands, including General Manager and Chief Marketing Officer. Before joining Yum! Brands, Mr. Niccol spent 10 years at Procter & Gamble Co., serving in various brand management positions. Mr. Niccol holds an undergraduate degree from Miami University and an MBA from the University of Chicago Booth School of Business. He serves as a director of Harley-Davidson, Inc. (NYSE: HOG)

**Qualifications:**

Mr. Niccol brings us extensive experience in brand management, marketing and operations, as well as a proven track record of driving outstanding results at multiple restaurant brands. He also adds to the Board’s experience in corporate governance and public company oversight.



## Matthew H. Paull

**Age:** 67

**Director Since:** 2016

**Background:**

Mr. Paull was Senior Vice President and Chief Financial Officer of McDonald's Corp., a global foodservice retailer, 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), and Canadian Pacific Railway Limited (NYSE: CP). Mr. Paull previously served as a member of the board of WMS Industries, Inc. until 2013, Best Buy Co. until 2013 and KapStone Paper and Packaging Corp. (NYSE: KS) until 2018. 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:**

Mr. Paull brings to our Board substantial restaurant industry experience and expert knowledge in finance, accounting, and public company corporate governance.

### Board Qualifications, Skills and Attributes

In evaluating current and prospective directors, our Board strives for a highly independent, well-qualified directors, with the diversity, experience and background to be effective and to provide strong oversight and thought leadership to management. In addition to the specific qualifications, skills and experience described above, each director is expected to possess personal traits such as candor, integrity and professionalism and to commit to devote significant time to the Company's oversight.

The Board of Directors held six meetings in 2018. Each director who served in 2018 attended at least 75% of the meetings of the Board and of Committees of which he or she was a member during the time in which they served as a member of the Board in 2018, except for Kimbal Musk. The Board has requested that each of its members attend our annual shareholder meetings absent extenuating circumstances, and all directors serving on the Board following the date of the 2018 annual meeting attended the meeting.

Assuming all directors standing for re-election are elected at the annual meeting, the average age of our directors will be 57, and the Board will possess the skills, experiences and attributes reflected in the following table. We believe these skills, experiences and attributes are relevant and important to the company's achievement of its strategic goals, including making our brand culturally relevant and engaging, digitizing and modernizing the restaurant experience, continuing to ensure a culture of accountability and creativity throughout our organization, and enhancing our economic model to benefit our shareholders.

## BOARD SKILLS, EXPERIENCE AND ATTRIBUTES

**LEADERSHIP**
**9/10 directors**
(CEO or Executive Officer; Leader of large division, business unit or organization; public company board service)

**RESTAURANT/FOOD INDUSTRY**
**6/10 directors**
(Restaurant Owner/Manager; Sourcing & Supply; Food Safety/Quality Assurance)

**HR/TALENT MANAGEMENT/COMPENSATION**
**4/10 directors**
(Recruiting; Talent Development & Motivation; Management; HR Compliance)

**FINANCE/ACCOUNTING**
**7/10 directors**
(Financial Reporting; Accounting Systems; Public Filings; Internal Controls)

**RISK MANAGEMENT**
**4/10 directors**
(Evaluation, Assessment and Oversight)

**BRANDING/MARKETING/MEDIA**
**5/10 directors**
(Branding Strategy & Innovation; Customer Relations; Crisis Management)

**DIGITAL/SOCIAL MEDIA/TECHNOLOGY**
**3/10 directors**
(Social Media Strategy; Technology-Based Consumer Applications; Revenue Opportunities; Cybersecurity)

**REAL ESTATE/LEASING**
**4/10 directors**
(Site Selection; Property Management and Administration)

**INTERNATIONAL**
**7/10 directors**
(Non-U.S. Regulations, Customs, Organizational Structures and Tax Implications and Planning)

**SUSTAINABILITY/ESG**
**3/10 directors**
(Waste Reduction, Responsible Sourcing, Environmental Impact, Social & Governance Issues)

**GOVERNMENT RELATIONS**
**3/10 directors**
(Lobbying, Regulatory, Investigations & Compliance)

**INVESTOR RELATIONS**
**7/10 directors**
(Engagement regarding strategy, financial results, executive compensation and corporate governance)

### Board Selection and Refreshment

We seek to strike the right balance between retaining directors with deep knowledge of the Company and adding directors who bring a fresh perspective. Of the directors who are standing for re-election, three have served on the board for over 10 years and seven have served for fewer than five years. In 2018, the Board retained an executive recruiting firm to assist in identifying, evaluating and conducting due diligence on potential director candidates and has instructed the firm to maintain a running list of potential director candidates. The Board is committed to actively seeking to include highly qualified women and individuals from minority groups in the pool from which new director candidates are selected and, to meet that goal, has assembled a diverse team within the recruiting firm to work on Chipotle's assignment.

The recruiting firm has been instructed to specifically focus on identifying candidates who, in addition to having particular skills and experience, also would add to the gender and diversity of the Board.

### Independence of Directors

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 2019 the Board determined that none of our directors has any relationships, transactions or arrangements that would

compromise his or her independence, except that Mr. Niccol and Mr. Ells are not independent directors as a result of their employment with us.

In making its determination as to the independence of members of the Board, 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 was an employee until April 1, 2018, and for which Messrs. Namvar and Paull currently serve on the advisory board. Accordingly, the Board concluded that each director other than Mr. Ells and Mr. Niccol 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.

### *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. In performing its functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurance of the company's management and independent auditors which, in their reports, express opinions on the fair presentation of the company's financial statements and the effectiveness of the company's internal controls over financial reporting. The Audit 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 Audit 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 beginning on page 25 of this proxy statement. The Committee determined that the fees paid to the independent auditor in 2018, 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 Audit Committee also has 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 Audit 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 performance of its duties. The Audit Committee held eight meetings in 2018. The members of the Audit Committee are Messrs. Baldocchi (Chairperson) and Cappuccio and Ms. Hickenlooper. 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 2018. A report of the Audit Committee is found under the heading "Audit Committee Report" on page 25.

### *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 and Executive Chairman based on an evaluation of their performance and approves the compensation level of our other executive officers following an evaluation of their performance and recommendation by the 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 – 2018 Compensation Program – Long-Term Incentives – 2018 Performance Share Award Design." The Committee has for several years, including 2018, 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 independent executive compensation consulting firm, to provide the Committee with advice regarding compensation matters for 2018 and for the equity compensation awards made to our executive officers in February 2018. All of the fees paid to Pay Governance during 2018 were in connection with the firm's work on executive and director 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 six meetings in 2018. Additionally, the Chairman of the Committee held a number of discussions with shareholders regarding executive compensation and related matters. A report of the Committee is found under the heading "Executive Officers and Compensation – Compensation Discussion and Analysis – Compensation Committee Report" on page 45.

### *Compensation Committee Interlocks and Insider Participation*

The members of the Compensation Committee are Messrs. Flanzraich (Chairperson), Namvar and Paull. 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 Compensation 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, 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 2018, other than the payments disclosed under "– Director Compensation" 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 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 any potential director candidates recommended by our shareholders 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.

The Nominating and Corporate Governance Committee held four meetings in 2018. The members of the Committee are Messrs. Cappuccio (Chairperson), Flanzraich and Namvar.

### *Special Committees*

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 relating to food safety matters. In 2017, the scope of the Committee's authority was broadened to also encompass a demand from a shareholder that the Board investigate potential violations of law in connection with payment card security matters. As of December 31, 2018, the Demand Review Committee consisted of Messrs. Flanzraich and Cappuccio. The Committee meets as needed and met once in 2018.

## 2018 Director Compensation

Following is a description of our 2018 compensation program for non-employee directors. Directors who are employees of Chipotle do not receive compensation for their services as directors. Directors also are reimbursed for expenses incurred in connection with their service as directors, including travel expenses for meetings.

| NON-EMPLOYEE DIRECTOR COMPENSATION | CASH RETAINER[1] | RESTRICTED STOCK UNITS[2] |
|---|---|---|
| All non-employee directors | $75,000 | $120,000 |
| *Meeting fees:* | | |
| Board of Directors meeting | $ 2,000 | |
| Committee meeting | $ 1,500 | |
| Committee meeting (telephonic participation at in-person meeting) | $ 750 | |
| *Additional Compensation:* | | |
| Lead Independent Director | $50,000 | |
| Audit Committee Chair | $20,000 | |
| Compensation Committee Chair | $ 15,000 | |
| Nominating and Corporate Governance Committee Chair | $ 10,000 | |
| Other Committees, if applicable | $ 5,000 | |

(1) All cash retainers are paid in arrears, on a pro rata basis, at the end of June and December.
(2) A restricted stock units (RSU) represents the right to receive shares of our common stock upon vesting. RSUs are granted to non-employee directors on the date of our annual shareholders meeting each year. The number of shares subject to the award is based on the closing price of our common stock on the grant date.

The Compensation Committee of the Board reviews and makes recommendations to the Board on compensation provided to non-employee directors at least biennially, as required by its charter. At the request of the Committee, in May 2018, its independent compensation consultant (Pay Governance) conducted an assessment of the competitiveness of our non-employee director compensation program as compared to the 2018 peer group disclosed on page 36. Upon review and consideration, the Committee recommended, and the Board approved, that no changes would be made to the non-employee director compensation for 2018.

We also have stock ownership requirements for our directors, under which we require each non-employee director to own Chipotle common stock with a market value of five times the annual cash retainer within five years of the director's election to the Board. All directors who served on our Board during 2018 met this requirement as of December 31, 2018. Restricted stock units count as shares owned for purposes of this requirement.

The compensation paid to each non-employee director who served in 2018 is set forth below. Patricia Fili-Krushel and Scott Maw were elected to our Board in March 2019, so they did not receive any compensation in 2018.

| NAME | FEES EARNED OR PAID IN CASH | STOCK AWARDS(1) | TOTAL |
|---|---|---|---|
| Albert S. Baldocchi | $ 117,000 | $120,063 | $237,063 |
| Paul T. Cappuccio | $ 114,500 | $120,063 | $234,563 |
| Neil W. Flanzraich | $166,500 | $120,063 | $286,563 |
| Robin Hickenlooper | $ 97,000 | $120,063 | $ 217,063 |
| Kimbal Musk | $ 81,000 | $120,063 | $ 201,063 |
| Ali Namvar | $100,000 | $120,063 | $220,063 |
| Matthew H. Paull | $ 94,000 | $120,063 | $ 214,063 |

(1) Reflects the grant date fair value under FASB Topic 718 of RSUs awarded for the equity portion of each non-employee director's annual retainer. RSUs in respect of 277 shares of common stock were granted to each non-employee director on May 22, 2018. The RSUs were valued at $433.44 per share, the closing price of Chipotle common stock on the grant date. The RSUs vest on the first anniversary of the grant date, subject to the director's continued service as a director through that date. Under the terms of the award agreements, 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 a change in control of Chipotle. Directors may elect to defer receipt upon vesting of the shares underlying the RSUs; however, none of the directors elected this deferral option with respect to 2018. As of December 31, 2018, Messrs. Baldocchi, Flanzraich and Musk each held 792 RSUs, Messrs. Cappuccio and Paull and Ms. Hickenlooper each held 543 RSUs, and Mr. Namvar held 277 RSUs.

## 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, serves as Executive 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 appropriate for Mr. Ells to serve as Chairman. As the founder of our company, he had been the principal architect of our corporate strategy and our vision that food served fast doesn't have to be low quality and delicious food doesn't have to be expensive. The Board has appointed a Lead Independent Director, whose role is

described below, which helps provide an appropriate counterbalance to the Board's governance process.

The Board, particularly the Lead Independent Director and the chairperson of the Nominating and Corporate Governance Committee, 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 structure of Mr. Ells as Chairman of the Board, Mr. Niccol as Chief Executive Officer and as a member of the Board, and Mr. Flanzraich as Lead Independent Director is in the best interests of Chipotle and our shareholders.

### Lead Independent Director

Mr. Flanzraich was appointed Lead Independent Director in September 2014. The Board believes that maintaining a Lead Independent 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 responsibilities of the Lead Independent Director are contained in our Corporate Governance Guidelines and include: (i) chairing any Board meetings during executive session without employee directors present, which are held at least quarterly; (ii) consulting with the Chief Executive Officer and Chief Financial Officer on business issues and with the Nominating and Corporate Governance Committee on Board management; (iii) coordinating activities of the other independent directors and serving as a liaison between the Chairman and independent directors; (iv) calling meetings of the independent directors when determined to be necessary or appropriate; (v) reviewing and approving the agenda for each Board meeting; (vi) 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; (vii) working in collaboration with the Chair of the Nominating and Corporate Governance Committee to complete the annual Board performance self-evaluation process; (viii) advising the Nominating and Corporate Governance Committee on the composition of Board committees and selection of committee chairs; (ix) providing leadership to the Board if circumstances arise in which the Chairman may have, or may be perceived to have, a conflict of interest; (x) considering Board succession planning matters; (xi) together with the chair of the Compensation Committee, leading the annual performance evaluation of the Chief Executive Officer; (xii) participating in shareholder outreach efforts relating to executive compensation and corporate governance matters; and (xiii) writing an annual letter to shareholders to be included in the proxy statement for our annual meeting of shareholders each year.

### Board Performance Self-Evaluation Process

In consultation with the independent Lead Director, the Chairman of the Nominating and Corporate Governance Committee oversees annual Board and committee self-assessments. The directors' self-evaluation process includes candid, one-on-one discussions between the Committee Chair and each independent director on topics such as the overall effectiveness of the Board and its committees in performing their oversight responsibilities, the composition of the Board and each committee, the quality, rigor and effectiveness of meetings, the qualifications and effectiveness of incumbent directors, and whether the Board and each committee possess members with the right skills and experience to fulfill their responsibilities. Responses and observations from this process are discussed by the full Board and form the basis for process changes and setting future agendas. The Nominating and Corporate Governance Committee believes that this self-evaluation process best generates candid and real-time feedback on the efficacy of the Board and its relationship with management and considers each year whether changes in the process would be advisable.

### How to Contact the Board of Directors

Any shareholder or other interested party may contact the Board of Directors, including the Lead Independent 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., 610 Newport Center Dr., Suite 1300, Newport Beach, CA 92660, 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 Corporate 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 2018. The independent

directors also typically hold an executive session prior to each regularly-scheduled Board meeting as well. The Lead Independent Director chaired the non-employee executive sessions of the Board held during 2018. The Board expects to continue to conduct executive sessions of the independent directors at each regularly-scheduled Board meeting during 2019, and independent directors may schedule additional sessions at their discretion.

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

## Director Nomination Process

The Nominating and Corporate Governance Committee is responsible for establishing criteria for nominees to serve on our Board, screening candidates, and recommending for approval by the full Board candidates for vacant Board positions and for election at each annual meeting of shareholders. The Committee's policies and procedures for consideration of Board candidates are described below. Ten of the eleven members of the Board are nominees for election as a director at this year's annual meeting. Each nominee was recommended to the Board 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 business and professional achievements and experience and industry background, particularly in light of our principal business and strategies, and 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;
- Their experience on public company boards and knowledge of corporate governance practices; and
- Relevant provisions of our Corporate Governance Guidelines.

These factors may be weighted differently depending on the individual being considered and the needs of the Board at the time. We do not have a particular policy regarding the diversity of nominees or Board members; however, 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 have assembled a diverse team to work on our assignments and have been instructed to specifically focus on identifying candidates who, in addition to bringing particular skills and experience to the Board, also would add to the gender and/or ethnic diversity of 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 also may nominate candidates for election as a director at our annual meeting. To do so, a shareholder must comply with the provisions of our bylaws regarding shareholder nomination of directors, including compliance with the deadlines described under "Other Business and Miscellaneous – Shareholder Proposals and Nominations for 2020 Annual Meeting – Bylaw Requirements for Shareholder Submission of Nominations and Proposals" on page 59. 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. These provisions are described under "Other Business and Miscellaneous – Shareholder Proposals and Nominations for 2020 Annual Meeting – Inclusion of Director Nominations in Our Proxy Statement and Proxy Card under our Proxy Access Bylaws" on page 59.

### *Candidate Evaluation Process*

The Nominating and Corporate Governance 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 Independent Director, other directors, senior management or outside advisors regarding a particular candidate. The committee also considers 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 appropriate for further consideration. To the extent feasible, candidates are interviewed by the Chairman, the Lead Independent 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).

### *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 provided for the nominations of Ali Namvar and Matthew Paull for election to Chipotle's Board at the 2017 and 2018 annual meetings 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. Pershing Square 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 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."

## Shareholder Engagement

Our management and directors actively engage with shareholders to seek their input on emerging issues and to address shareholder questions and concerns. As in prior years, during 2018 we conducted outreach calls with shareholders that collectively own almost 30% of our outstanding shares to solicit their feedback. We engaged with a diverse mix of shareholders on a wide range of topics including, among others, business strategy, historical financial performance, executive compensation, diversity, corporate governance, sustainability and corporate social

responsibility. These exchanges were candid and constructive. Most of our engagement has been in person or via telephone, and Chipotle participants varied depending on the topics the shareholders wanted to discuss and included the Chairs of our Compensation and Nominating and Corporate Governance Committees and members of our executive leadership team. The Board or members of the appropriate Committee were updated about the discussions and considered any actions to be taken in response. The table below generally summarizes our engagement process.

| ENGAGEMENT CHANNEL | TIMING/ FREQUENCY | CHIPOTLE PARTICIPANTS | DISCUSSION TOPICS | OUTCOMES |
|---|---|---|---|---|
| Annual meeting-related and issue-based engagement | Early in year, usually after fourth quarter and fiscal year earnings are announced and before our first quarter Board meeting | Depending on the agenda, our Lead Director, Chair of the Compensation Committee, Chair of the Nominating & Corporate Governance Committee, and/or representatives of our Investor Relations, Corporate Secretary/Governance and Compensation & Benefits functions may participate | • Executive compensation, including award design & performance metrics<br>• Equity plan parameters<br>• Board composition, refreshment, nomination & election procedures and related matters<br>• Corporate governance<br>• Sustainability and diversity matters | • Adjustments to overall quantum of executive compensation, in certain instances<br>• Revisions to incentive award designs from year to year<br>• Publication of comprehensive sustainability report<br>• Adoption of enhancements to Lead Director role<br>• Enhanced proxy statement disclosures around Board skills, recruitment and related matters<br>• Implementation of proxy access |
| Investor meetings and conferences | Throughout the year (meetings with investors at company or investor offices, at analyst-sponsored conferences | Senior Management and Investor Relations | • Company strategy<br>• Financial results and outlook | • Enhanced investor understanding of our business and strategy<br>• Understanding of financial metrics and other disclosures that are most meaningful to investors |
| Earnings calls | Quarterly and special calls from time to time | Senior Management and Investor Relations | • Company strategy<br>• Financial results and outlook | • Enhanced investor understanding of our business and strategy<br>• Understanding of financial metrics and other disclosures that are most meaningful to investors |

## 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 58.

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 and its standing committees exercise an oversight role with respect to risk issues facing our company. The following table summarizes the role of the Board and each of its committees in overseeing risk:

| | Role in Risk Oversight |
|---|---|
| **Board of Directors** | • Ongoing review of strategic plans, including associated risks<br>• Regular review and analysis with management of most significant business risks as identified by the Board, the Audit Committee, and/or management<br>• Oversees succession planning process for our CEO and other executive officers |
| **Audit Committee** | • Oversees our risk management framework and the process for identifying, assessing and monitoring key business risks<br>• Conducts annual review of internal risk assessment and mitigation plans<br>• Discusses with management, our internal auditors and independent auditors 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<br>• Oversees compliance with legal and regulatory requirements and the Company's Code of Conduct and receives reports on calls to our global compliance hotline<br>• Oversees financial risks, including risks relating to key accounting policies<br>• Reviews internal controls with management<br>• Evaluates and oversees related person transactions<br>• Meets regularly with representatives of the independent auditors |
| **Compensation Committee** | • Oversees risks relating to our compensation programs<br>• Employs an independent compensation consultant to assist in reviewing compensation programs, including potential risks created by the programs |
| **Nominating and Corporate Governance Committee** | • Oversees risks relating to corporate governance matters and processes<br>• Oversees compliance with key corporate governance documents, including our Corporate Governance Guidelines<br>• Conducts annual succession plan reviews to ensure the Company maintains appropriate succession plans for its senior officers |

### *Board Leadership Structure and Risk Oversight*

The Board believes our current leadership structure facilitates the oversight of risk by combining independent leadership through the Lead Independent Director, independent Board committees, and majority independent Board, with an experienced Executive Chairman who has intimate knowledge of our business, industry and challenges. The Executive Chairman's in-depth understanding of these matters has also been bolstered through the appointment in 2018 of a new Chief Executive Officer, who has extensive operating, leadership and risk management experience from his prior roles. The experience and operating expertise that our Executive Chairman and our Chief Executive Officer bring to the Board, combined with the independent leadership of our Lead Independent Director, allow the Board to promptly

identify and raise key risks, hold special meetings of the Board when necessary to address critical issues, and focus management's attention on areas of concern. Additionally, the Board's independent committees, or the independent directors as a whole, can objectively assess the risks identified by the Board or by management, as well as management's effectiveness in managing such risks.

### Sustainability and Corporate Responsibility

We are committed to providing leadership in the area of sustainable business practices. For example, since 2015 we have made significant strides towards reducing the amount of food and packaging waste bound for landfills, increasing our diversion rate from 31% that year to 42% in 2018. In 2018, we announced our goal of diverting 50% of all of our restaurant waste from landfills by 2020. We also endeavor to serve only meats that are "Responsibly Raised ®" in accordance with criteria we have established, in an effort to improve sustainability and promote animal welfare, and without the use of non-therapeutic antibiotics or added hormones. We also seek to use 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. In 2018, we bought over 23.7 million lbs. of organic ingredients, and 29 million lbs. of local produce. We are committed to transparency surrounding our sustainable progress and we publish Sustainability Reports every other year, with progress reports against our goals published in the years between full reports. We will issue a new sustainability report in 2019, which will be available on our website at www.chipotle.com.

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

As required by Section 14A of the Securities Exchange Act of 1934, we are asking shareholders to cast an advisory vote to approve the compensation of our executive officers as disclosed in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives shareholders the opportunity to endorse or not endorse our executive compensation programs and policies and the compensation paid to our executive officers. We have committed to holding say-on-pay votes at each year's annual meeting until at least the next shareholder vote on the frequency of say-on-pay votes in 2023.

## Executive Compensation Disclosures

Detailed discussion and analysis of our executive compensation begins on page 29. See, in particular, the disclosures under "Executive Officers and Compensation – Compensation Discussion and Analysis – Executive Summary" for a concise description of shareholder outreach in which we've engaged in regards to the compensation of our executive officers, compensation decisions the Compensation Committee made for 2018, and 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.**

# 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, 2019 and to perform other permissible, pre-approved services. As a matter of good corporate governance, we are requesting that shareholders ratify the 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 2019 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, 2019, 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, Ernst & Young 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 Ernst & Young, 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; in connection with the relocation of our corporate headquarters, our audit work for the 2018 audit was transitioned to a new engagement team and the committee appointed a new lead engagement partner for the 2019 audit. The next change in lead engagement partner after the current five-year rotation period is expected to occur for the 2024 audit.

The Audit Committee has adopted a policy which sets out procedures that the company 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 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, 2018 and 2017 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 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, 2018 and 2017 were:

| Fees for Services | 2018 | 2017 |
|---|---|---|
| Audit Fees(1) | $1,144,002 | $943,578 |
| Audit-Related Fees | – | – |
| Tax Fees(2) | 19,960 | 37,451 |
| All Other Fees | – | – |
| Total Fees | $1,163,962 | $ 981,129 |

(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 tax consulting and advisory services.

**The Audit Committee and 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, 2019.**

## AUDIT COMMITTEE REPORT

With regard to the fiscal year ended December 31, 2018, the Audit Committee (i) reviewed and discussed with management our audited consolidated financial statements as of December 31, 2018 and for the year then ended; (ii) discussed with Ernst & Young LLP, the independent auditors, the matters required by Auditing Standards 1301, Communication with Audit Committees and matters required by applicable requirements of the PCAOB and SEC; (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, 2018 for filing with the SEC.

The Audit Committee:
Albert S. Baldocchi, Chairperson
Paul Cappuccio
Robin Hickenlooper

## 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.

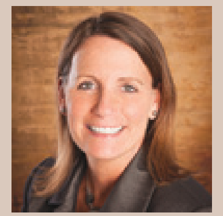
Pre-approvals on a class basis for specified predictable and recurring services are granted annually at or about the start of each fiscal year. In considering all pre-approvals, the committee may consider whether the level of non-audit services, even if permissible under applicable law, is appropriate 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

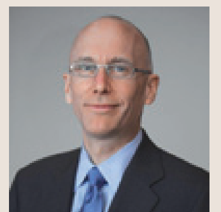
entire fiscal year. Pre-approval on an individual service basis may be given or effective only up to six months prior to commencement of the services.

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.

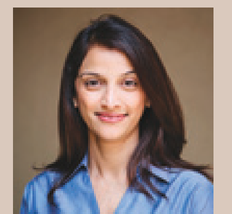
## EXECUTIVE OFFICERS

In addition to Steve Ells, our Executive Chairman, and Brian Niccol, our Chief Executive Officer, whose biographies are included in Proposal 1 under the heading "Information Regarding the Board of Directors," our executive officers as of April 1, 2019, are as follows:

| EXECUTIVE OFFICERS | |
|---|---|
| | *Marissa Andrada*, 51, was appointed Chief People Officer in April 2018. Prior to joining Chipotle, Marissa was Senior Vice President of Human Resources & Chief Human Resources Officer at Kate Spade & Company, a fashion company, from July 2016 through October 2017, and Senior Vice President of Partner Resources for Starbucks Corporation, a global coffee roaster and retailer, from November 2010 to March 2016. Prior to Starbucks, she served as Senior Vice President of Human Resources at GameStop Corporation and Head of Human Resources at Red Bull North America. Marissa holds a Masters of Business degree from Pepperdine University. |
| | *Scott Boatwright*, 46, was appointed Chief Restaurant Officer in May 2017, and shortly thereafter assumed direct accountability for all restaurant operations. Prior to Chipotle, Mr. Boatwright spent 18 years with Arby's Restaurant Group, a quick serve restaurant company, in various leadership positions, including for the last six years as the Sr. Vice President of Operations, where he was responsible for the performance of over 1,700 Arby's restaurants in numerous states. Scott holds an MBA from the J. Mack Robinson College of Business at Georgia State University. |
| | *Chris Brandt,* 50, was appointed Chief Marketing Officer in April 2018. Prior to joining Chipotle, Chris was Executive Vice President and Chief Brand Officer of Bloomin' Brands, Inc., a casual dining company, from May 2016 through December 2017; Chief Brand Officer/Chief Marketing Officer for Taco Bell, a subsidiary of Yum! Brands, Inc., a global restaurant company, from May 2013 to May 2016; and Senior Director and Vice President of Marketing for Taco Bell from November 2010 to May 2013. Chris holds an MBA from the Anderson School at UCLA. |
| | *Curt Garner,* 49, was appointed Chief Technology Officer in March 2017. Mr. Garner joined Chipotle in November 2015 as Chief Information Officer, and prior to that had worked for Starbucks Corporation, a global coffee roaster and retailer, 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). |
| | *John R. (Jack) Hartung*, 61, 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 supply chain and Chipotle's European operations. Mr. Hartung joined Chipotle after spending 18 years at McDonald's Corp., a quick serve restaurant company, 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. |
|  | *Laurie Schalow*, 51, has served as Chief Communications Officer since August 2017. Prior to joining Chipotle, Laurie served as Vice President of Public Affairs for Yum! Brands, a global restaurant company, overseeing Global Corporate Social Responsibility, PR, Crisis Management, Social Listening and Community Diversity programs for the 44,000 KFC, Pizza Hut and Taco Bell restaurants in 140 countries. Laurie holds an MBA from Case Western Reserve and Wayne State University. She currently serves on the Board of Directors for The Muhammad Ali Center and Chairs the Maryhurst Board. |



*Roger Theodoredis*, 60, was appointed Chief Legal Officer and General Counsel in October 2018. Prior to joining Chipotle, Roger was General Secretary of Danone North America, with responsibility for legal, public affairs, communications, scientific affairs and corporate security. He previously served as Executive Vice President, General Counsel and Corporate Secretary of The WhiteWave Foods Company, a food and beverage company, until its acquisition by Danone, S.A. in April 2017, having been appointed as General Counsel of WhiteWave Foods in 2005. Prior to joining WhiteWave Foods, Roger served as Division General Counsel for Mead Johnson Nutritionals, a subsidiary of Bristol Myers Squibb, and in a number of legal roles for Chiquita Brands International. Roger holds a J.D. from Boston University School of Law.



*Tabassum Zalotrawala*, 44, was appointed Chief Development Officer in December 2018. Prior to joining Chipotle, Tabassum spent over seven years at Panda Restaurant Group, Inc., a fast casual restaurant chain, as Chief Development Officer and Vice President Design, Construction, Facilities & Strategic Sourcing. She holds a Bachelor of Fine Arts in interior design from the School of Planning and Architecture and American Continental University, a Master of Fine Arts in architecture from Savannah College of Art and Design and an MBA from Emory University. Additionally, she is a LEED accredited professional. Most recently, Tabassum completed the Advanced Management Program at Harvard Business School.

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

Dear Fellow Shareholder,

In 2018 we made notable organizational, strategic and operational progress that we believe translated into significant shareholder value creation. One of our major accomplishments was the hiring of Brian Niccol as CEO on March 5, 2018. He has created a new executive leadership team and jointly developed and has begun to implement a new operating, branding and digital transformation strategy. We believe this new strategy has already translated into substantial year-over-year increases across several key metrics:

- Revenue increased 8.7% to $4.9 billion
- Comparable restaurant sales increased 4%
- Digital sales increased 42.4% and accounted for 10.9% of total sales
- Restaurant level operating margin increased to 18.7% from 16.9%

This strong operating performance and new positioning has resulted in $3.8 billion of increased shareholder value, as measured by the increase in our market capitalization. During 2018, our stock price increased 49%, which was the highest percentage gain among our peers and 54% above the return of the S&P 500. Consistent with this strong performance, the annual cash incentive awards paid to our named executive officers were between 113% to 132% of their target awards. Our 2018 annual long-term equity incentive awards were 100% performance-based and were designed to have strong alignment with shareholders.

Consistent with what we have communicated in the past, the Committee carefully reviews our executive compensation program each year as we believe it is essential to our ongoing turnaround and future success. We have a long history of motivational executive compensation programs that we believe have contributed to our recent and historical success and ensured our continued focus on performance and creation of shareholder value. During our CEO transition in early 2018, we made retention awards to three of our named executive officers to ensure continuity of our executive leadership team and to give our new CEO time to evaluate the incumbent executive team and make any necessary personnel changes. We believe that our strong stock price performance during the course of 2018, the successful transition of the CEO role to Mr. Niccol, and the development of a strong executive leadership team validated the importance of these awards.

As in prior years, during 2018 we conducted outreach calls with shareholders that collectively own a significant percent of our outstanding shares to solicit their feedback on our executive compensation program and other topics important to them.

Last year we received 96% support from our shareholders on our say-on-pay vote with respect to our 2017 compensation programs. This successful vote confirmed that shareholders are supportive of our executive compensation program, including the recruiting package for our new CEO, Brian Niccol. In last year's CD&A, we provided forward-looking disclosure of the details of Mr. Niccol's new hire package and compensation actions taken in 2018 with respect to the other executive officers named in the proxy statement, which we believe provided important context and for which we believe shareholders expressed support in last year's say-on-pay vote. Mr. Niccol's 2018 compensation was primarily comprised of performance-based and highly motivational stock incentive grants that the Compensation Committee developed to recruit him to join Chipotle.

While our 2018 say-on-pay support was very strong, we conducted numerous additional shareholder outreach calls in the first quarter of 2019 to receive input on our 2019 executive compensation program. Based on this feedback and an assessment conducted by our new Chief People Officer, our 2019 executive compensation program – which will be fully disclosed in next year's CD&A – retains many attributes of the 2018 executive compensation program as well as several key changes that sustain our highly motivating and shareholder aligned focus (for example, we retained our comparable restaurant sales and restaurant level cash flow metrics and added a food safety metric to our annual cash incentive plan).

Our say-on-pay proposal is Proposal 2, and our Board recommends that you vote "FOR" this proposal. In support of this recommendation, we invite you to read the Compensation Discussion and Analysis that follows for further information on our compensation philosophy and decisions. We are confident that our programs are clearly linked to performance and aligned with shareholder interests, while appropriately incentivizing our management team. We look forward to maintaining ongoing dialogue with our shareholders.

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 look forward to continuing to have an open dialogue. We have great confidence in the abilities of our new CEO and the entire executive leadership team at Chipotle to further enhance shareholder value and continue to grow the company.

Neil Flanzraich, Lead Independent Director and Chair of the Compensation Committee
Ali Namvar
Matthew Paull

## 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 named in the 2018 Summary Compensation Table (the "named executive officers" or "NEOs"), and explains the Compensation Committee's determinations as to the actual compensation of our named executive officers for 2018. In addition, this Compensation Discussion and Analysis is intended to put into perspective the tables and related narratives regarding the compensation of our named executive officers that appear following this section.

### Executive Summary

This Compensation Discussion and Analysis is intended to provide shareholders with an understanding of our compensation policies and practices with respect to our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and our three other most highly compensated executive officers for the year ended December 31, 2018. Two individuals served as CEO for part of 2018, so this proxy describes the compensation of both executives. These executive officers, who are referred to as the "named executive officers" or "NEOs," and their current positions are:

- Brian Niccol, Chief Executive Officer
- Steve Ells, Executive Chairman and former CEO

- Jack Hartung, Chief Financial Officer
- Curt Garner, Chief Technology Officer
- Scott Boatwright, Chief Restaurant Officer
- Chris Brandt, Chief Marketing Officer

### *Performance Overview for 2018*

In 2018 we made significant organizational, strategic and operational progress that we believe translated into significant shareholder value creation. Key highlights include:

#### Organizational

In 2018, we developed a new executive leadership team, beginning with Mr. Niccol's appointment as CEO and a member of the Board in March 2018. We believe that each member of the executive leadership team brings a unique set of experiences that will allow Chipotle to deliver on its strategy of winning today and cultivating a better future. The following executives were added to the executive leadership team in 2018:

- Brian Niccol was hired as our CEO in March 2018
- Steve Ells transitioned from Chairman and CEO to Executive Chairman upon Mr. Niccol's appointment as CEO in March 5, 2018
- Chris Brandt joined as our Chief Marketing Officer in April 2018
- Marissa Andrada joined as our Chief People Officer in April 2018
- Roger Theodoredis was hired as our Chief Legal Officer in October 2018
- Tabassum Zalotrawala was hired as our Chief Development Officer in December 2018

#### Strategic

- Launched "For Real" advertising campaign
- Opened 137 new restaurants
- Digitized make lines are now in over 1,000 restaurants (on track to be in all restaurants by the end of 2019)
- Digital pickup shelves are in approximately 1,000 restaurants (on track to be in all restaurant by the end of 2019)
- Increased app downloads (+72% versus 2018) and delivery sales
- Achieved promising results related to our tests of mobile order pickup lanes
- Continued to develop and enhance our food safety practices, including continuous improvement processes, implementation of quarterly training for all crew members, and planning for improved sanitation of food preparation equipment.

#### Operational

- Revenue increased 8.7% to $4.9 billion
- Comparable restaurant sales increased 4%
- Digital sales increased 42.4% and accounted for 10.9% of total sales
- Restaurant level operating margin increased from 16.9% to 18.7%

The above actions and results translated into $3.8 billion of increased shareholder value over 2018, as measured by the increase in our market capitalization and a 49% return to shareholders. This 49% total shareholder return was the highest among our peer group and 54% above the S&P 500. From January 1, 2019 through March 15, 2019, our market capitalization increased an additional $5.8 billion.

### *Performance Impact on 2018 Compensation*

As a result of the aforementioned strong performance in 2018, the annual cash incentive payouts for our named executive officers ranged from 113% to 132% of target and the premium-priced stock-only stock appreciation rights ("SOSARs") granted in 2018 to our executive officers were in-the-money as of December 31, 2018 (although these SOSARs do not start to vest until the second anniversary of the grant date).

*CEO Transition: Timeline of Events and Compensation Decisions*

| Date/Event | Compensation Decision(s) Approved by the Committee | Rationale for Compensation Committee Decision(s) |
|---|---|---|
| **November 28, 2017**<br>Announced CEO search and transition of Mr. Ells to Executive Chair (upon hire of new CEO) | • The Company announced that Mr. Ells would become Executive Chairman following the completion of a search to identify a new CEO.<br>• Mr. Ells' entered into an Executive Chairman Agreement with the Company that contained compensation provisions; however, none of the provisions became effective until 2018 (see below). | • The Committee wanted to ensure an effective transition of the CEO role. Further, Mr. Ells' knowledge and understanding of the Company is deep and the Committee wanted Mr. Ells to continue to focus on bringing innovation to the way Chipotle sources and prepares food through high quality ingredients that are raised responsibly. |
| **January 5, 2018**<br>SOSAR award granted to Mr. Ells per his Executive Chairman Agreement | • In-lieu of an annual long-term incentive ("LTI") award, Mr. Ells was granted a one-time award of premium-priced SOSAR with an exercise price of $500 per share, which equated to a nearly 60% premium to the grant date stock price of $313.79. The SOSAR will vest on July 4, 2019 based on continued service, and will be exercisable from January 5, 2021 until January 5, 2022. | • The structure of the SOSAR award was based on the Committee's desire to align pay with long-term performance and the company's value creation.<br>• The Committee decided that the strike price should be set at a significant premium to the price at the time of grant to motivate increasing shareholder value. |
| **January 9, 2018**<br>The Company entered into retention agreements with select employees including three of our 2018 NEOs | • Mr. Hartung's agreement provided for a cash retention bonus of $1 million that vests on March 5, 2019 (one-year anniversary of Mr. Niccol's hire).<br>• Messrs. Garner and Boatwright's agreements provided for cash retention bonuses of $500,000 and $400,000, respectively (each vesting in four quarterly installments during 2018) and equity awards – structured as 50% RSUs and 50% SOSARs – of $3 million and $2.4 million, respectively (vesting on the second and third anniversaries of the grant date). | • The Committee determined that because of the uncertainty caused by our search for a new CEO, it was critical to retain Messrs. Hartung, Garner and Boatwright given their essential skill sets and organizational knowledge and to avoid further disruption to the organization. The Committee also wanted to give the new CEO time to evaluate the incumbent leadership team and decide if changes were warranted.<br>• The size of the cash retention bonuses and equity awards for Messrs. Garner and Boatwright were based on the Committee's assessment of (i) their unvested equity value (which was $0 at the time of the awards), (ii) historical LTI awards, and (iii) expected cost and impact on the organization if they were to leave.<br>• The size of the cash retention bonus to Mr. Hartung was based on the Committee's assessment that Mr. Hartung was critical to the organization during the CEO transition process and it was imperative that he be retained. |

| Date/Event | Compensation Decision(s) Approved by the Committee | Rationale for Compensation Committee Decision(s) |
|---|---|---|
| **March 5, 2018**<br>Mr. Niccol was hired as CEO | **Annual Compensation ($000)**<br>Base Salary: $1,200<br>Target Annual Incentive[1]: 150%<br>Performance Shares *Target Value*: $3,000<br>SOSARs: $2,000<br>**Total: $8,000**<br>**Make-Whole Award ($000)**<br>SOSARs *10% premium strike price*: $9,650<br>RSUs: $9,650<br>**Inducement Award[2] ($000)**<br>SOSARs *25% premium strike price*: $4,000<br>**Sign-On Award ($000)**<br>Cash: $1,000<br>(1) Expressed as a percentage of base salary.<br>(2) "Inducement" in this instance refers to a recruitment award and is not describing the employment inducement exemption under the NYSE's Listed Company Manual Rule 303A.08. | • Mr. Niccol's annual compensation package was based on a competitive compensation analysis of CEO pay levels at our peer group.<br>• The amount of Mr. Niccol's make-whole award was based on an assessment by the Committee's independent compensation consultant of the unvested equity awards that Mr. Niccol would forfeit from his prior employer. Further, the structure of the make-whole award was entirely equity in the form of premium-priced SOSARs given the Committee's commitment to aligning pay with performance and with the creation of shareholder value.<br>• The amount and structure of Mr. Niccol's inducement award was to further incentivize Mr. Niccol to join Chipotle and based on the Committee's desire to link pay to shareholder value creation.<br>• The cash sign-on award provided to Mr. Niccol was to offset forgone cash and other compensation at his prior employer and to facilitate his transition to Chipotle. |
| **March 5, 2018**<br>Changes to Mr. Ells' role and compensation are triggered per his Executive Chairman Agreement | • Mr. Ells officially transitioned to Executive Chairman given Mr. Niccol's appointment as CEO.<br>• Reduced Mr. Ells base salary from $1.54 million to $900,000.<br>• Reduced Mr. Ells target annual incentive from 150% of base to 100% of base salary. | • The reductions in Mr. Ells' base salary and annual incentive plan target were commensurate with his reduced responsibilities upon Mr. Niccol's appointment as CEO. |

### *Shareholder Outreach in 2018*

At our 2018 annual meeting of shareholders, 96% of the votes cast by our shareholders supported our say-on-pay proposal.

During 2018, the Chair of our Compensation Committee and members of management conducted outreach calls to discuss compensation and governance matters with shareholders owning almost 30% 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 matters. See "Corporate Governance – Shareholder Engagement" for more details about our outreach efforts.

Based on our interactions with investors, we made the following changes to the 2018 annual long-term incentive award structure for our NEOs (excluding Mr. Ells):

- Added a restaurant level cash flow metric to our performance share design (to complement comparable restaurant sales growth)
- Removed the absolute stock price metric from our performance shares
- Added premium-priced SOSARs to the award mix

**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, governance and strategy related matters. Engage in careful consideration of the annual say-on-pay results and respond to shareholder feedback when deemed appropriate. | ☒ Executive officers and directors are prohibited from hedging or pledging shares of Chipotle stock or holding Chipotle stock in margin accounts. |
| ☑ Employ an annual LTI program based entirely on performance-based equity awards. | ☒ No stock option repricing, reloads, exchanges or options granted below market value without shareholder approval. |
| ☑ Align our executive compensation with achieving meaningful financial and operational goals and creating shareholder value. | ☒ No change-in-control severance agreements. |
| ☑ Designed our executive compensation program to discourage excessive risk taking, with design features including the incorporation of multiple performance measures in our incentive programs, robust executive stock ownership guidelines, long-term performance goals and at least three-year vesting periods on LTI awards, and a clawback policy related to LTI awards. | ☒ No single trigger; equity awards include double trigger vesting in order for an executive to receive benefits in connection with a change in control. |
| ☑ Retained an independent compensation consultant who is engaged directly by the committee to advise on executive compensation matters. | ☒ Engage the committee's consultant for additional work for or on behalf of the executive officers. |

## Executive 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 and motivate our employees to create long-term shareholder value. We strive to provide our employees with meaningful rewards while maintaining alignment with shareholder interests, corporate values, and important management initiatives. In setting and overseeing the compensation of our executive officers, the Compensation Committee believes our compensation philosophy to be best effectuated by designing compensation programs and policies to achieve the following specific objectives:

- Attracting, motivating, and retaining highly capable executives who are vital to our short- and long-term success, profitability, and growth;
- Aligning the interests of our executives and shareholders by rewarding executives for the achievement of strategic and other goals that we believe will enhance shareholder value; and
- Differentiating executive rewards based on actual performance.

The Committee believes that these objectives are most effectively advanced when a significant portion of each executive officer's overall compensation is in the form of at-risk elements such as annual incentive bonuses and long-term incentive-based compensation, which should be structured to closely align compensation with actual performance and shareholder interests.

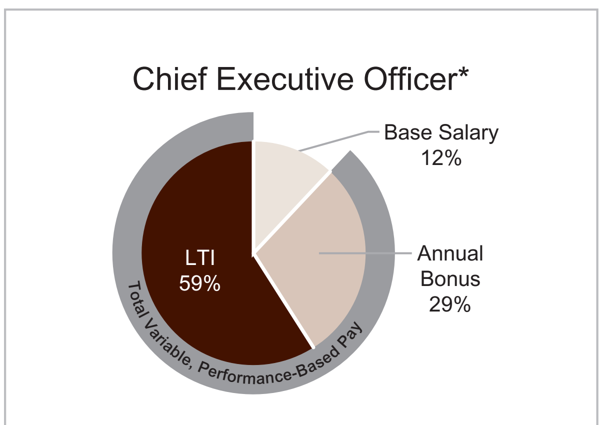
### Executive Compensation Program Components and Structures

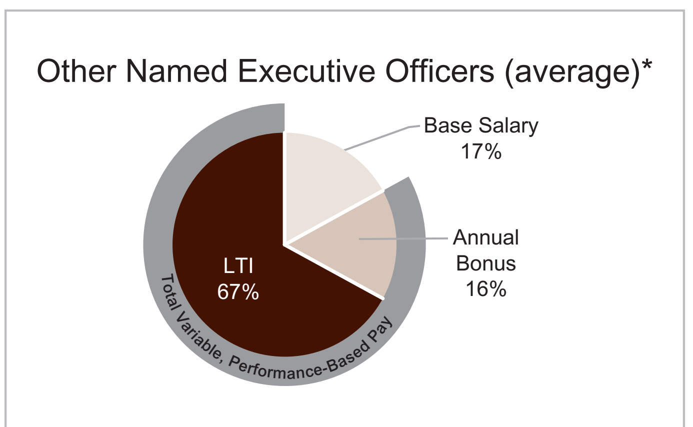
Our executive compensation program is comprised of three primary components:

| BASE SALARY | ANNUAL INCENTIVE PLAN (AIP) | EQUITY COMPENSATION (LTI) |
|---|---|---|
| Determined based on the position's importance within Chipotle, the executive's experience, and external market data. | 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 evaluations of performance against individual goals and objectives. | Aligns the incentives of our executive officers with shareholder interests and rewards the creation of shareholder value. |

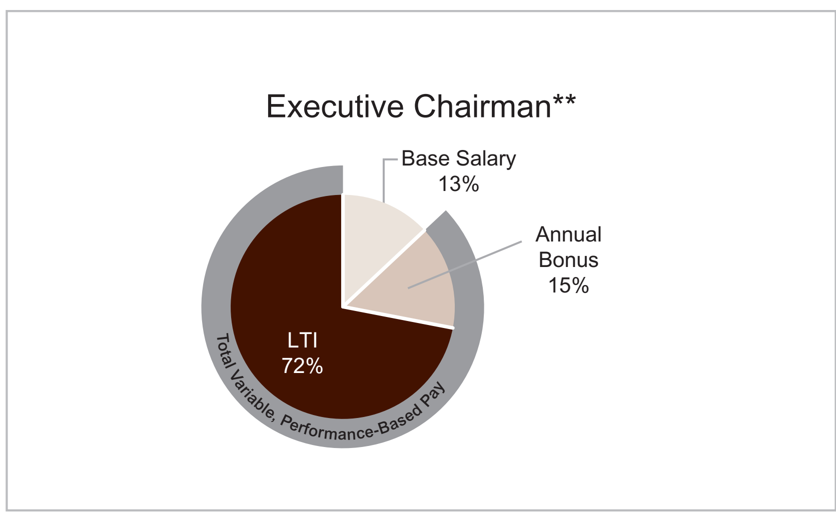
### Variable Pay

The Compensation Committee allocates pay among these components in a manner designed to place performance at the forefront of our overall executive compensation program. Consistent with our performance-driven compensation philosophy, the Committee allocates a significant portion of our executive officers' total compensation to variable, performance-based pay elements (performance-based AIP and LTI programs). As an employee's responsibilities and ability to affect our financial results increases, base salary becomes a smaller component of his or her total compensation.




* The charts for the Chief Executive Officer and the Other Named Executive Officers exclude one-time inducement, make-whole and retention awards, since those are not a component of our annual executive compensation program.




** LTI consists of the one-time premium-priced SOSAR granted to Mr. Ells in lieu of his 2018 annual LTI award grant and in connection with his transition to Executive Chairman.

## Factors in Setting Executive Officer Pay

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

- Chipotle's performance relative to goals approved by the committee
- 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 business climate in the restaurant industry, general economic conditions and other factors

The CEO makes recommendations to the Committee regarding compensation for the other executive officers after reviewing Chipotle's overall performance and each executive officer's personal contributions. 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

| | |
|---|---|
| **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, an independent compensation consultant, has been retained 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 functions at the direction of the committee.<br>• Attends committee meetings when requested.<br>• Provides advice regarding compensation decision-making governance.<br>• Provides market data, as requested.<br>• Consults on various compensation matters.<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 recommend performance goals at the beginning of each year that are targeted to positively influence shareholder value; goals are reviewed and approved by the Compensation Committee.<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 and Impact on 2018 Pay Levels*

The Compensation Committee believes the investment community generally assesses our company performance by reference to a peer group composed primarily of other companies in the restaurant industry; as such, the majority of the companies in our compensation peer group are companies in the restaurant industry. However, the Committee and management believe the talent pool for executives is broader than the restaurant industry and, for that reason, chose to include non-restaurant hospitality companies and other consumer brand companies in our compensation peer group.

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 considers this peer data in setting pay levels but does not explicitly target a specific percentile when setting pay levels for executive officers.

In setting 2018 pay levels, in addition to peer group data, the Committee also considered the progress of our turnaround, current base salaries, the value of outstanding equity awards and the design of our executive pay program. We believe our executive pay program has consistently demonstrated strong shareholder alignment and linkage to shareholder value creation. Our annual equity awards continue to be 100% performance-based and have always been comprised of performances shares and/or SOSARs (including performance-based SOSARs and, in 2018, SOSARs with premium strike prices).

### *2018 Peer Group*

The Committee reviews the composition of the peer group on an annual basis and makes adjustments in response to changes in the size or business operations of Chipotle and of companies in the peer group.

The peer group used for 2018 was generally comprised of publicly-traded companies in the Restaurants or Hotel, Resorts & Cruise Line (focus on hotels) primary industries as defined by the Global Industry Classification Standard (GICS), with annual revenues generally between $2 billion and $11 billion (approximately 0.5x to 2.5x Chipotle). The Committee also included companies with whom we compete for executive talent above the upper end of this range (for example, our Chief Technology Officer was formerly an executive at Starbucks Corporation) and excluded companies serving a substantially different market or client base than we do. Chipotle's revenues rank at the 77th percentile of this peer group, and our market capitalization ranks at the 65th percentile of this peer group (as of December 31, 2018), which confirmed for the Committee that this peer group is appropriate.

*Data provided by S&P Capital IQ; $ in millions*

| Company Name | Revenues[(1)] | Market Cap[(2)] |
|---|---|---|
| Starbucks Corporation | $ 25,279 | $ 79,895 |
| McDonald's Corporation | $ 21,025 | $ 136,891 |
| Darden Restaurants, Inc. | $ 8,297 | $ 12,394 |
| YUM! Brands, Inc. | $ 5,688 | $ 28,707 |
| Wyndham Destinations, Inc. (3) | $ 5,176 | $ 3,493 |
| Bloomin' Brands, Inc. | $ 4,126 | $ 1,644 |
| Domino's Pizza, Inc. | $ 3,242 | $ 10,314 |
| Brinker International, Inc. | $ 3,174 | $ 1,698 |

| Company Name | Revenues[1] | Market Cap[2] |
|---|---|---|
| Cracker Barrel Old Country Store, Inc. | $ 3,054 | $ 3,842 |
| Hyatt Hotels Corporation | $ 2,498 | $ 7,264 |
| Texas Roadhouse, Inc. | $ 2,397 | $ 4,272 |
| The Cheesecake Factory Incorporated | $ 2,337 | $ 1,912 |
| Papa John's International, Inc. | $ 1,667 | $ 1,256 |
| Jack in the Box Inc. | $ 870 | $ 1,998 |
| *Peer Group Median* | $ 3,208 | $ 4,057 |
| | | |
| **Chipotle Mexican Grill, Inc.** | **$ 4,865** | **$ 11,998** |
| **Percent Rank** | **77%** | **65%** |

(1) Trailing 12 months, as of December 31, 2018.
(2) As of December 31, 2018.
(3) Known as Wyndham Worldwide Corporation until June 1, 2018.

The Committee reviews the composition of the peer group periodically and adjusts the peer group in response to changes in the size, business operations or strategic focus 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. For 2019, the Committee has determined to remove several companies (Jack in the Box, Papa John's, Wyndham, Cracker Barrel and Texas Roadhouse) due to lack of revenue alignment and replace them with Hilton Worldwide Holdings Inc., Marriott International, Inc., Restaurant Brands International, Ulta Beauty, Inc. and Lululemon Athletica Inc. These additional peer group companies include non-restaurant companies that have some combination of high brand recognition, attractive growth opportunities, strong customer service and excellent operations, which align with Chipotle's continued focus on customer service and operational excellence.

## 2018 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.

The Committee reviews the base salary of each executive officer at least annually and adjusts salary levels as the Committee deems necessary and appropriate.

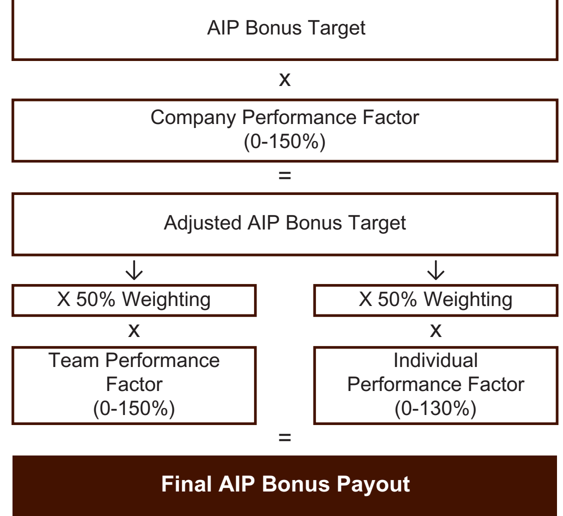
Recommendations for the executive officers (other than the CEO and the Executive Chairman) are provided to the Committee by our CEO. The Committee reviews the CEO's base salary and recommends any changes for review and approval by the full Board. Adjustments to base salaries, if any, typically occur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

| | Base Salaries | | |
|---|---|---|---|
| Name | 2018 | 2017 | % Change |
| Brian Niccol[1] | $1,200,000 | – | N/A |
| Steve Ells | $ 900,000 | $1,540,000 | (41.6)% |
| Jack Hartung | $ 800,000 | $ 800,000 | 0.0% |
| Curt Garner | $ 523,631 | $ 489,353 | 7.0% |
| Scott Boatwright | $ 430,994 | $ 410,000 | 5.1% |
| Chris Brandt[1] | $ 600,000 | – | N/A |

(1) Messrs. Niccol and Brandt joined Chipotle in 2018. The amounts in the table reflect their annualized base salaries for 2018.

### *Annual Incentive Plan*

The AIP is our annual cash incentive program for all employees. The formula to determine payouts under the 2018 AIP consisted of a company performance factor (CPF), a team performance factor (TPF) and an individual performance factor (IPF):




Target goals for business performance metrics used to determine the CPF are set at the beginning of the year. Achievement at the target level of each performance metric would yield a CPF of 100%, equating to a payout at the target level. The CPF is adjusted up or down based on the performance versus the underlying performance metrics. As a result of a mix of underperformance and outperformance against the AIP performance metrics in 2018, as depicted below, the CPF was 126.8% of target.

Strategic objectives included in the CPF for 2018 were customer satisfaction and site assessment requests, in contrast to the strategic objectives included in the 2017 CPF of A/B Grade for restaurants, Max 15 Minute Transactions and Out of Store ADS. The 2018 strategic objectives were based on our 2018 strategic plan, which provided for enhanced focus on customer service and additional rigor when evaluating new sites for potential geographic expansion.

Financial objectives included in the CPF for 2018 consist of comparable restaurant sales ("CRS") and restaurant cash flow ("RCF") margin, which were the same objectives used in 2017. The CRS target goal is the highest amongst our peers (based on midpoint CRS guidance available at the time the goals were set) and over double the median midpoint (1.8%) CRS guidance of our peer group. Both our CRS and RCF goals for 2018 are slightly lower than those for 2017. For CRS, the actual performance in 2016 was a double-digit decline on a percentage basis and, as a result, the CRS targets for 2017 were established higher in comparison to our 2016 negative performance in order to reset targets to a more normalized growth rate. Since we set our 2017 CRS target against a prior year double-digit performance decline, our 2017 CRS performance metric was too aggressive and was not achieved. We believe that the 2018 CRS target, which uses as a base a more normalized prior year's actual performance, is more realistically aggressive. For RCF, our 2018 target RCF margin goal was 50 basis points lower than our 2017 target RCF margin goal but represented a 190-basis point improvement when compared to our actual 2017 RCF margin performance. We believe that the achievement of the 2018 CRS and RCF targets will result in strong shareholder value creation if maintained for a three-year period and, for that reason, are appropriately robust targets.

*$ in millions*

| Metric | Target | Actual | Impact on CPF |
|---|---|---|---|
| Average CSAT Jan – Jun | 72.25% | 71.59% | (4.2%) |
| Average CSAT July – Dec | 71.84% | 73.70% | 12.5% |
| Comparable Restaurant Sales | 4.9% | 4.0% | (4.9%) |
| Restaurant Cash Flow Margin | 18.84% | 18.74% | (1.7%) |
| Site Assessment Requests | 160 | 172 | 25% |

| | |
|---|---|
| A. Beginning CPF: | 100% |
| B. Actual Perf. Impact to CPF: | 26.8% |
| **C. Final CPF (A + B)** | **126.8%** |

The TPF uses similar underlying performance measures as the CPF but is measured at the regional level. For 2018, the corporate TPF applicable to the named executive officers was based on a weighted average of regional results and was 78.7% of target. The TPF uses comparable restaurant sales growth and restaurant cash flow margin metrics, which are responsible for more than half of the outcome, and also store performance and digital sales. The variations amongst the targets for each region makes it difficult to summarize all TPF targets; however, the Compensation Committee believes the TPF targets for 2018 were challenging, evidenced by the below target payout.

In addition to the CPF and TPF, described above, an executive's AIP bonus also depends on his or her achievement of individual performance objectives, which are reflected in the individual performance factor (IPF). The individual objectives for the CEO are approved by the Committee, and the objectives for other executive officers are set by the CEO with approval by the Committee. After the end of the year, the Committee evaluates the performance of the CEO against his objectives and approves an IPF from 0-130%, depending on its evaluation. The CEO evaluates the performance of each of the other executive officers against their objectives and provides a recommendation on IPF for each to the Committee, which then approves an IPF from 0-130% for each executive officer.

In determining the IPF for the CEO and executive officers, the Committee considered the CEO's individual accomplishments and the CEO considered each executive's individual accomplishments that helped the Company achieve significant progress on its long-term transformation and growth strategy, including becoming more visible with culturally relevant communication and innovation, digitizing and modernizing the restaurant experience, running restaurants with great hospitality and fast throughput, ensuring discipline and focus with innovation through a stage gate process and building a great culture of accountability and creativity.

The leadership team's collective efforts resulted in achieving our 2018 financial goals, including increasing revenue by 8.7%, increasing comparable restaurant sales by 4.0%, net of a 0.8% decline in comparable restaurant transactions, and growing digital sales by 42.4% to 10.9% of sales. Some of the key accomplishments achieved by our named executive officers during 2018 that the Committee considered when determining the 2018 IPF include:

Brian Niccol
- Recruited and onboarded a full executive leadership team made up of best-in-class, proven leaders in their fields
- Developed and implemented transformation and growth strategy initiatives and established a pipeline of validating strategic initiatives across the organization
- Focused continuous improvement on food safety standards and practices

Jack Hartung
- Led Chipotle's impressive unit economics, as well as a strong and clean balance sheet, and ensured a disciplined approach to capital deployment to enhance shareholder value
- Effectively communicated near-term and long-term strategy and financial information to investors

Curt Garner
- Continued digital work to support mobile, delivery, catering and loyalty program, resulting in increased digital sales to over 10% of total sales; increased app downloads by 72% from 2017
- Hired and retained talent to ensure system stability during transition and maintained 99%+ systems uptime on the digital platform

| | |
|---|---|
| Chris Brandt | • Strengthened brand narrative through Chipotle "For Real" campaign and piloted new loyalty program; made Chipotle more visible and culturally relevant in social and traditional media channels and increased overall digital impressions by nearly 20% and social impressions by nearly 40% year-over-year from 2017<br>• Established stage gate innovation process and validated product/promotional pipeline |
| Scott Boatwright | • Strengthened restaurant operations and improved restaurant-related results, including customer satisfaction scores and restaurant level margin, which increased to 18.7% from 16.9% in 2017.<br>• Continued focus on food safety strategy and execution of enhanced food safety practices<br>• Modernized restaurant operations and increased efficiency; redesigned and launched throughput training |

The 2018 AIP payouts for each of our named executive officers, and their performance against their respective CPF, TPF and IPF, are set forth below.

| | Target 2018 AIP Bonus | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | % Base Salary | Dollar Value | CPF | TPF | IPF | Actual 2018 Bonus | Actual as % of Target |
| Brian Niccol[(1)] | 150.0% | $1,800,000 | 126.8% | 78.7% | 130% | $2,381,684 | 132% |
| Steve Ells[(2)] | 104.5% | $ 1,061,397 | 126.8% | 78.7% | 100% | $ 1,202,518 | 113% |
| Jack Hartung | 85.0% | $ 680,000 | 126.8% | 78.7% | 130% | $ 899,747 | 132% |
| Curt Garner | 65.0% | $ 340,360 | 126.8% | 78.7% | 125% | $ 439,561 | 129% |
| Scott Boatwright | 65.0% | $ 280,146 | 126.8% | 78.7% | 120% | $ 352,916 | 126% |
| Chris Brandt | 65.0% | $ 390,000 | 126.8% | 78.7% | 120% | $ 491,306 | 126% |

(1) Mr. Niccol's AIP bonus for 2018 was guaranteed at 150% of base salary, but his actual payout was higher due to strong company and individual performance.
(2) Mr. Ells' target amount was prorated to reflect his two months serving as Chairman of the Board and Chief Executive Officer and 10 months serving as Executive Chairman.

### *Long-Term Incentives*

#### *Fiscal 2018 Annual Long-Term Incentive Awards*

Each year, the Committee evaluates the long-term incentive vehicles provided to our NEOs to evaluate whether they are properly aligned with the long-term growth of the Company and shareholder interests. For 2018, the Committee chose to grant a combination of performance share awards and stock appreciation rights because these vehicles are performance-based and reward management for enhancing long-term shareholder value. In March of 2018, the Committee determined a target grant value for each NEO, and split the value 60% in performance shares and 40% in stock appreciation rights. Details of these annual grants are provided below.

#### *2018 Performance Share Awards*

Annual performance share awards were granted to our NEOs (excluding Mr. Ells), on March 29, 2018. The performance share awards were subject to a 3-Year Comparable Restaurant Sales Growth (for the period from January 1, 2018 – December 31, 2020) and 2-Year Average Restaurant Cash Flow Margin (for the period from January 1, 2019 – December 2020). The number of shares that can be earned under the award is determined by multiplying the target number of shares by the payout percentage, as set forth in the table below:

| | 3-Year CRS Growth | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2-Year Average RCF Margin | 3.50% | 4.00% | 4.50% | 5.00% | 5.50% | 6.00% | 6.50% | 7.00% |
| **18.50%** | 0% | 0% | 25% | 50% | 75% | 100% | 125% | 150% |
| **19.00%** | 0% | 25% | 50% | 75% | 100% | 150% | 150% | 200% |
| **20.00%** | 50% | 75% | 100% | 150% | 150% | 200% | 200% | 250% |
| **21.00%** | 75% | 100% | 150% | 200% | 200% | 250% | 250% | 300% |
| **22.00%** | 75% | 125% | 175% | 225% | 250% | 275% | 300% | 300% |

In no event will any Performance Shares be earned if either (i) the 2-Year Average RCF Margin is less than 18.5%, or (ii) 3-Year CRS Growth is less than 3.5%, and no more than 300% of the target number of shares can be earned. If the level of performance for either 3-Year CRS Growth, 2-Year Average RCF Margin or both falls between two stated performance levels in the performance goal table, the payout percentage shall be determined using interpolation. The measurement period for the 2018 PSU grants does not end until December 31, 2020; however, if the CRS and RCF results for 2018 (4.0% and 18.84% respectively) were applied across the entire performance period, the payout of the 2018 PSUs would be approximately 17%.

The Compensation Committee utilized comparable restaurant sales growth and restaurant cash flow margin as elements in both our AIP (one-year measurement period) and our long-term incentive program (two- and three-year measurement periods). When designing our 2018 executive compensation program, the Committee evaluated a range of performance metrics for purposes of our incentive programs and determined that because comparable store revenue growth and restaurant cash flow margin are core drivers of the company's performance and stockholder value creation, and because of the different performance periods, these measures remained appropriate for both the short-term and long-term incentive programs. In addition, the Committee continued its practice of supplementing these measures with additional performance measures in the AIP to strike an appropriate balance with respect to incentivizing top-line growth, profitability, non-financial business imperatives and stockholder returns over both the short-term and long-term horizons.

*2018 Stock Appreciation Rights*

Annual stock appreciation rights were granted to our NEOs (excluding Mr. Ells), on March 29, 2018. These awards were generally granted with an exercise price equal to 110% of the closing price on the grant date, with the exception of Mr. Niccol (as further described below under "Agreements with our Executive Officers"), and vest in two equal installments on the 2nd and 3rd anniversaries of the grant date, subject to continued employment. The stock appreciation rights were granted with a 7-year term and are disclosed in the Grants of Plan Based Awards Table for Fiscal 2018.

### *Other Long-Term Incentive Awards in 2018*

In addition to the annual equity awards described above, there were other one-time equity awards provided to NEOs in connection with the hiring, transition, or retention of key management, as described below in the section titled Agreements with Executive Officers.

### *Long-Term Incentives – 2016 Performance Share Award Vesting*

The vesting of the 2016 performance share award was based on our absolute stock price performance during the three-year performance period from February 3, 2016 to February 3, 2019. The terms of this award stipulated that in order to receive a threshold payout, the average closing stock price of Chipotle's common stock for 60 consecutive days during the performance period was at least $700, which was approximately 52% higher than the closing price of Chipotle's common stock on the grant date. At the end of the performance period, it was determined that the threshold goal was not met and these awards were cancelled in December 2018 and paid out at 0%.

### *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, but 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. These perquisites include relocation benefits and commuting expenses, company cars or car allowances and payment of certain legal expenses. These perquisites are identified in notes to the 2018 Summary Compensation Table. Executive officers have also used company-owned or chartered airplanes for personal trips, in which case we require the executive officer to fully reimburse 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.

## Actions Taken with Respect to 2019 Compensation

For 2019 the Compensation Committee approved base salaries and AIP targets in amounts consistent with 2018. We also streamlined our AIP design and added several key features based on feedback from shareholders:

- Result based solely on financial metrics.
- Result is subject to two modifiers: (1) food safety performance and (2) individual performance.
- Increased the weight of corporate and team performance on the overall payout.

Full disclosure of the 2019 AIP design will be provided in our 2020 proxy statement.

In early 2019, the Compensation Committee granted annual equity awards to our executive officers that generally are consistent with the annual equity awards granted in 2018, including the total grant date fair values and the allocation of 60% PSUs and 40% SOSARs. The 2019 performance share matrix is similar in structure to the 2018 performance share matrix but (i) requires a minimum level of restaurant cash flow margin of 19% for any payout to occur (this is above the minimum level of restaurant cash margin of 18.5% that was used in the 2018 performance share matrix), and (ii) both the RCF margin and the CRS growth metrics have a three-year performance period (versus the RCF margin metric for 2018, which had a two-year performance period).

In addition, in February 2019, the Compensation Committee granted a one-time performance-based digital transformation equity award to the executive officers, excluding Mr. Ells, that is intended to incentivize the achievement of strategic business initiatives focused on expanding digital sales. The Committee believes that the strategic importance of gaining digital market share over the next three years warranted a one-time digital transformation award as further incentive for management to achieve the company's digital goals. The digital transformation PSUs will fully vest in 2023 only if and to the extent that the executive officer achieves the transformation goals by the end of 2020 and, if vested, will settle in shares of Chipotle common stock. Chipotle began a transformation in 2018 when Mr. Niccol joined the company and the Compensation Committee believed a separate incentive was appropriate and beneficial to achieve these longer-term goals. The digital transformation PSU granted to Mr. Niccol equaled approximately 17.7% of his total annual long-term equity incentive grant for 2019.

## Executive Stock Ownership Guidelines

Our Board of Directors has adopted robust 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 current named executive officer. Our stock ownership guidelines for our CEO and CFO are among the highest requirements in our compensation peer group. The guidelines are reviewed for possible adjustment each year and may be adjusted by the Committee at any time.

| | Required # of Shares | Actual Share Ownership(1) | Actual Share Ownership as Multiple of Base Salary(2) |
|---|---|---|---|
| Brian Niccol | 31,000 | 30,141 | 10.85x |
| Steve Ells | 31,000 | 208,339 | 99.95x |
| Jack Hartung | 7,000 | 35,272 | 19.04x |
| Curt Garner | 3,000 | 4,780 | 3.94x |
| Scott Boatwright | 3,000 | 3,824 | 3.83x |
| Chris Brandt | 3,000 | 1,548 | 1.11x |

(1) Includes unvested RSUs.

(2) Based on the closing stock price and base salaries as of February 27, 2019.

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 have five years from the date they become subject to the guidelines to acquire the requisite number of shares. As of March 2018, all of our executive officers satisfied, exceeded or were on track to meet these requirements within the requisite time period.

Stock ownership guidelines applicable to non-employee members of our Board of Directors are described on page 16.

## 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.

## Agreements with our Named Executive Officers

We do not have a formal severance plan for our employees, and historically, we generally have not entered into written employment, change-in-control, severance or similar agreements with any of our employees, including our executive officers. In addition, payouts under the AIP and vesting of equity awards are conditioned on the employee being employed as of the payout or exercise date. However, in connection with our public search for a new Chief Executive Officer, our appointment of Mr. Niccol to that role, and the transition of Mr. Ells to Executive Chairman, we entered into agreements with certain of our executive officers that contain limited, short-term benefits. We believe these agreements were necessary to ensure a smooth and orderly CEO transition and to ensure continuity of leadership during a time of potential uncertainty. We structured these agreements based on an extensive review of external market practices and the specific circumstances of each executive.

### *Severance Arrangements*

In 2017 and 2018, we hired several new executives and, in connection with their offers of employment, provided them with limited, short-term severance arrangements.

When Mr. Boatwright joined Chipotle in May 2017, we entered into an Executive Agreement with him providing that if his employment is terminated by us, other than for cause, at any time prior to May 29, 2019, he would be entitled to a severance payment of up to 12 months of his then-current base salary. The number of months' salary to which he would be entitled is reduced by one for each month of employment following May 29, 2018 and would be fully exhausted on May 29, 2019.

In connection with Mr. Niccol's hiring, we signed an offer letter providing that if his employment is terminated prior to March 5, 2023 by us, other than for cause, or by Mr. Niccol with good reason, he would be entitled to severance payments equal to two-times the sum of his then current base salary plus his then current target bonus opportunity (or, if higher, his bonus payout for the immediately preceding fiscal year). The severance payments would be made in equal installments over the 24 months after his termination.

Mr. Brandt joined us in April 2018, and his offer letter provides that if his employment is terminated by us, other than for cause, prior to March 9, 2023, he would be entitled to a severance payment of the sum of his then current base salary plus his then current target bonus opportunity. The severance payments would be made in equal installments over the 12 months after his termination.

### *Executive Chairman Agreement*

On November 28, 2017, we entered into an Executive Chairman Agreement with Mr. Ells that provided for his transition to the role of Executive Chairman of the Board, effective on March 5, 2018 when Brian Niccol was appointed as Chipotle's new CEO. Under the Agreement, Mr. Ells received an annualized base salary of $900,000 and a target annual bonus opportunity under the AIP of 100% of his base salary for 2018, and he was awarded a special stock-only stock appreciation right (SOSAR) award on January 7, 2018, with an exercise price of $500 per share, which equated to a nearly 60% premium to the grant date stock price of $313.79. The SOSAR will vest on July 7, 2019, subject to Mr. Ells' continued employment through the vesting date, and possible accelerated vesting upon Mr. Ellis' earlier termination of employment by Chipotle without cause, by Mr. Ells with good reason, or due to his death or disability. The SOSAR, if vested, will first be exercisable on January 5, 2021, and will expire on January 5, 2022. The SOSAR was granted in lieu of Mr. Ells' annual long-term equity grant for 2018 and the grant date fair value of this special award was approximately $5.6 million, which was 40% below Mr. Ells' 2017 annual LTI award as CEO. Under the agreement, Mr. Ells is subject to customary non-competition and non-solicitation restrictive covenants for two years. The agreement also includes customary confidentiality provisions and a mutual non-disparagement

covenant. If Mr. Ells' employment is terminated by Chipotle without cause or by Mr. Ells with good reason, then, subject to his continued compliance with the restrictive covenants set forth in the agreement, the company will continue to pay Mr. Ells his then-current base salary during the applicable restricted period.

### *Executive Officer Retention Awards in Connection with CEO Transition*

On January 9, 2018, we entered into retention agreements with certain employees, including Messrs. Hartung, Garner and Boatwright. The retention agreements were intended to encourage the executives' continued service to Chipotle during the pendency of a search for Chipotle's next Chief Executive Officer and the subsequent leadership transition, and were approved by the Compensation Committee.

The agreement with Mr. Hartung provides for a cash retention bonus of $1,000,000, payable on March 5, 2019, which is the first anniversary of the appointment of a permanent successor to Steve Ells as Chipotle's Chief Executive Officer. The agreements with Messrs. Garner and Boatwright provide for cash retention bonuses of $500,000 for Mr. Garner and $400,000 for Mr. Boatwright, which were paid in equal installments at the end of each calendar quarter of 2018. In each case, retention payments were subject to the executive's continuous employment with Chipotle through the payment date.

Additionally, the agreements for Messrs. Garner and Boatwright provided for awards of SOSARs in respect of 18,386 shares for Mr. Garner and 14,709 shares for Mr. Boatwright, and RSUs in respect of 4,780 shares for Mr. Garner and 3,824 shares for Mr. Boatwright. The SOSARs have an exercise price of $313.79 per share, which was the closing price of Chipotle common stock as of the grant date, and both the SOSARs and RSUs are scheduled to vest equally on the second and third anniversaries of the grant date, subject to possible acceleration of vesting in the event of the recipient's termination without cause or resignation for good reason, or a change in control of Chipotle without issuance of a replacement award to the recipient.

### *Terms of Offer Letter with New Chief Executive Officer*

On March 5, 2018, Brian Niccol was appointed CEO of Chipotle. In connection with his joining us as CEO, we entered into an offer letter with Mr. Niccol providing that for an annualized base salary of $1.2 million, a target annual bonus opportunity for 2018 of 150% of his base salary (which was guaranteed for 2018 only), and a maximum annual bonus opportunity for 2018 of 225% of his base salary. In addition, the offer letter entitled Mr. Niccol to receive the following equity awards: (i) an annual equity award grant for 2018 consisting of (A) PSUs with a target value of $3.0 million as of the grant date, which will have the same terms and conditions as applicable to annual 2018 PSUs awards granted to senior executives of Chipotle generally; and (B) SOSARs with a grant date value of $2.0 million and an exercise price equal to the closing price of Chipotle's common stock on the grant date, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting in the event of a termination of employment by Chipotle without cause or by Mr. Niccol for good reason, and a seven-year term; (ii) a sign-on award, which was made to Mr. Niccol on his start date, consisting of SOSARs in respect of 53,086 shares and an exercise price equal to 125% of the closing price of Chipotle's common stock on the grant date, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting as previously described, and a seven-year term; and (iii) a make-whole award – to replace forfeited unvested equity awards held at his prior employer – that was awarded to Mr. Niccol as of his start date and consisting of (A) SOSARs in respect of 114,840 shares and an exercise price equal to 110% of the closing price of Chipotle's common stock on the grant date, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting as previously described, and a seven-year term; and (B) RSUs totaling 30,141 shares, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting as previously described.

The offer letter further provides that if Mr. Niccol's employment is terminated by Chipotle without cause, or by Mr. Niccol with good reason, prior to the fifth anniversary of the commencement of his employment with the company, Mr. Niccol will be entitled to a severance payment of two times the sum of his annual base salary and target annual bonus opportunity (or, if higher, the amount of the annual bonus paid to him for the fiscal year immediately preceding the fiscal year in which such termination of employment occurs). The offer letter also entitles Mr. Niccol to employee benefits generally offered by Chipotle from time to time, and further provides for the payment to Mr. Niccol of a $1.0 million signing bonus, which had to be repaid if Mr. Niccol's employment with Chipotle terminated before the first anniversary of his start date.

Under the offer letter, Mr. Niccol has agreed that, (i) while he is employed by Chipotle and for a one-year period thereafter, he will not engage in a business competitive with Chipotle, and (ii) while he is employed by Chipotle and for a two-year period thereafter, he will not (a) solicit or hire Chipotle's employees, or (b) induce any of Chipotle's suppliers, licensees, or other business relations to cease doing business with Chipotle or interfere with the relationship between any such supplier, licensee, or other business relation and Chipotle. The offer letter also includes customary confidentiality and mutual non-disparagement provisions.

### Compensation Program Risk

Pay Governance LLC, an independent executive compensation consulting firm retained by the Compensation Committee, conducted a risk assessment of our compensation programs in March 2019 and concluded that our compensation policies, practices and programs do not create risks that are reasonably likely to have a material adverse effect on Chipotle. Pay Governance's assessment included a review of our pay and incentive plan structures, pay practices and policies and governance processes, including the Compensation Committee's oversight of such programs (supported by an independent consultant). In structuring and approving our executive compensation programs, as well as policies and procedures relating to compensation throughout our company, the Compensation Committee also considers risks that may be inherent in such programs, policies and procedures. The Compensation Committee reviewed the 2019 assessment and discussed the report with management and, based on its review, determined that any risks arising from the Company's compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the company.

### Accounting Considerations

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
Ali Namvar
Mathew Paull

## 2018 COMPENSATION TABLES

### 2018 Summary Compensation Table

| Name and Principal Position | Year | Salary | Bonus[1] | Stock Awards[2][3] | Option Awards[3][4] | Non-Equity Incentive Plan Compensation[5] | All Other Compensation[6] | Total |
|---|---|---|---|---|---|---|---|---|
| **BRIAN NICCOL** | 2018 | $ 969,231 | $1,000,000 | $ 12,650,019 | $15,683,006 | $2,381,684 | $837,000 | $33,520,940 |
| *Chief Executive Officer[7]* | | | | | | | | |
| **STEVE ELLS** | 2018 | $ 1,023,077 | $ – | $ – | $ 5,626,075 | $ 1,202,518 | $ 103,372 | $ 7,955,042 |
| *Executive Chairman; former Chief Executive Officer[8]* | 2017 | $1,540,000 | $ – | $ 9,324,505 | $ – | $ – | $ 187,675 | $ 11,052,180 |
| | 2016 | $1,540,000 | $ – | $14,002,740 | $ – | $ – | $ 120,356 | $15,663,096 |
| **JACK HARTUNG** | 2018 | $ 800,000 | $ – | $ 1,800,046 | $ 1,231,989 | $ 899,747 | $ 252,447 | $ 4,984,230 |
| *Chief Financial Officer* | 2017 | $ 800,000 | $ – | $ 4,196,010 | $ – | $ – | $ 209,150 | $ 5,205,160 |
| | 2016 | $ 792,308 | $ – | $ 5,886,337 | $ – | $ – | $ 175,559 | $ 6,854,204 |
| **CURT GARNER** | 2018 | $ 518,358 | $ 500,000 | $ 3,119,990 | $ 2,666,469 | $ 439,561 | $882,358 | $ 8,126,734 |
| *Chief Technology Officer[7]* | 2017 | $ 483,299 | $ 426,501 | $ – | $ 2,653,500 | $ 139,786 | $206,468 | $ 3,909,555 |
| **SCOTT BOATWRIGHT** | 2018 | $ 427,765 | $ 400,000 | $ 2,219,991 | $ 1,944,290 | $ 352,916 | $ 366,207 | $ 5,711,169 |
| *Chief Restaurant Officer[7]* | 2017 | $ 236,538 | $ – | $ – | $ 1,194,757 | $ 69,624 | $ 215,486 | $ 1,716,406 |
| **CHRIS BRANDT** | 2018 | $ 438,462 | $ 500,000 | $ 1,348,567 | $ 2,082,836 | $ 491,306 | $ 178,115 | $ 5,039,286 |
| *Chief Marketing Officer[7]* | | | | | | | | |

(1) Amounts under “Bonus” for 2018 represent one-time sign on bonuses for Messrs. Niccol and Brandt, who joined the company in 2018, and one-time retention bonuses granted in January 2018 to Messrs. Garner and Boatwright to induce them to remain with the company during the pendency of the company’s public search for a new chief executive officer.

(2) Amounts under “Stock Awards” represent the grant date fair value under FASB Topic 718 of performance share units (PSUs) for which vesting was considered probable as of the grant date. See Note 9 to our audited consolidated financial statements for the year ended December 31, 2018, which are included in our Annual Report on Form 10-K filed with the SEC on February 8, 2019, 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 2018 PSU awards will not pay out or have any value unless certain performance targets are achieved, which targets are based on three-year comparable restaurant sales growth from 2018 through 2020, and the two-year average restaurant cash flow margin over 2019 and 2020. The PSU awards reflect an assumed target outcome of the performance conditions and do not reflect the value that ultimately may be realized by the executive officer. The grant date fair value of the 2018 PSU awards, assuming maximum performance, is $9,000,229 for Mr. Niccol, $5,400,137 for Mr. Hartung, $4,860,221 for Mr. Garner, $3,060,175 for Mr. Boatwright and $2,600,675 for Mr. Brandt. For further discussion, see above under “Compensation Discussion and Analysis – 2018 Compensation Program – Long Term Incentives – 2018 Performance Share Award Design.” The 2017 PSU awards will not pay out or have any value unless the price of our common stock exceeds an average of $600 for a period of 60 consecutive trading days before February 19, 2020. The 2016 PSU awards expired and did not payout because the price of our common stock did not exceed an average of $700 for a period of 60 consecutive trading days before February 3, 2019.

(3) In connection with Mr. Niccol joining Chipotle in March 2018, the company granted him (i) a one-time award of stock only stock appreciation rights (SOSAR) with an exercise price equal to 125% of the closing stock price of Chipotle common stock on the grant date as a sign-on inducement, and (ii) a one-time award of SOSARs with an exercise price equal to 110% of the closing stock price of Chipotle common stock on the grant date and a restricted stock unit (RSU) as a make-whole award to replace unvested equity awards Mr. Niccol forfeited when he terminated employment with his former employer. The SOSARs are reflected in the “Option Awards” column and the RSU is reflected in the “Stock Award” column. In January 2018, the company granted Mr. Ells a one-time award of SOSARs for 175,000 shares in connection with his agreement to transition from CEO of the company to Executive Chairman of the Board and in lieu of his annual 2018 long-term equity grant. The SOSARs are reflected in the “Option Awards” column and have an exercise price of $500 per share, which equated to a nearly 60% premium to the grant date stock price.

(4) Amounts under “Option Awards” represent the grant date fair value under FASB Topic 718 of SOSARs awarded in 2018. See Note 9 to our audited consolidated financial statements for the year ended December 31, 2018, as referenced in footnote 2, 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.

(5) Amounts under “Non-Equity Incentive Plan Compensation” represent the amounts earned under the annual incentive plan (AIP) for the relevant year.

(6) Amounts shown in the "All Other Compensation" column for 2018 include the following:

| NAME | COMPANY CONTRIBUTIONS TO RETIREMENT PLANS[(a)] | PERSONAL AIRCRAFT USE AND COMMUTING COSTS[(b)] | HOUSING AND RELOCATION[(c)] | HOME SECURITY[(d)] | CAR ALLOWANCE[(e)] | LEGAL FEES[(f)] | TAX PAYMENTS[(g)] | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Brian Niccol | $ 0 | $145,157 | $ 26,189 | $32,744 | $28,350 | $563,668 | $ 40,894 | $837,000 |
| Steve Ells | $40,923 | $ 0 | $ 0 | $ 0 | $57,503 | $ 4,945 | $ 0 | $ 103,372 |
| Jack Hartung | $32,023 | $ 50,731 | $ 64,335 | $ 0 | $24,457 | $ 0 | $ 80,902 | $252,447 |
| Curt Garner | $30,406 | $ 23,313 | $465,633 | $ 0 | $ 35,100 | $ 0 | $327,906 | $882,358 |
| Scott Boatwright | $ 7,542 | $ 0 | $ 238,231 | $ 0 | $ 35,100 | $ 0 | $ 85,333 | $366,207 |
| Chris Brandt | $ 0 | $ 27,921 | $ 48,899 | $ 0 | $25,660 | $ 0 | $ 75,635 | $ 178,115 |

(a) Consists of matching contributions made by the company to Chipotle's 401(k) Plan and the Supplemental Deferred Investment Plan for the benefit of the executive. The Supplemental Deferred Investment Plan is a nonqualified deferred compensation arrangement for employees who earn compensation in excess of the maximum compensation that can be taken into account with respect to the 401(k) Plan, as set by the Internal Revenue Code. See "Non-Qualified Deferred Compensation for 2018" for more details on this plan.

(b) Consists of commuting costs for new executives who joined Chipotle in 2018 and/or executives who commuted from home to our company headquarters for all or part of 2018, including in connection with Chipotle's headquarters relocating to California from Colorado in 2018, and the cost of personal use of company-owned aircraft for commuting. Amounts for commercial travel include airfare, airport parking and ground transportation relating to travel between home and our company headquarters; amounts for use of company-owned aircraft include costs billed by a third-party operating company or, for company-operated flights, the hourly operating cost of the aircraft, consisting of fuel costs, an allocation of maintenance costs, and an allocation of other operating costs such as crew expenses, catering, landing fees, taxes, and other operating costs. On occasion, Mr. Ells and Mr. Niccol have used the company-owned aircraft for personal flights and have reimbursed the company for the aggregate incremental costs of those flights.

(c) Consists of relocation costs for executives who joined the company in 2018 and/or relocated in connection with the relocation of Chipotle's headquarters from Colorado to California, as well as temporary housing expenses for executives who were commuting from home and our company headquarters location. Relocation costs include costs such as transportation, house hunting trips, packing and transportation of household belongings, and housing costs include monthly rent and utilities payments. The executive would be required to repay Chipotle for these relocation costs if the executive's employment terminated before the one year anniversary of his start date or relocation. The aggregate incremental cost was based on the amount paid to the NEO or the service provider, as applicable.

(d) Consists of costs to install a security system in Mr. Niccol's home, which includes one-time advisory fees and equipment installation, plus monthly monitoring costs. The aggregate incremental cost was based on the amount paid to the service provider.

(e) Consists of costs for company car used by the executive, including 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. Also includes car allowances paid to those executives who choose not to use a company car.

(f) Consists of legal fees and expenses paid by the company arising from a commercial legal proceeding relating to Mr. Niccol's employment by Chipotle, and also legal fees paid by the company for legal review of employment-related agreements for Messrs. Niccol and Ells.

(g) Consists of the company's reimbursement of taxes payable by the executive in connection with housing, relocation and commuting costs that are taxable perquisites to the executives under rules of the Internal Revenue Service.

(7) Several executive officers became executive officers of Chipotle within the past two years, and their compensation is reported only for the years in which they were executive officers of the company: Mr. Niccol joined the company as Chief Executive Officer in March 2018; Mr. Garner was designated as an executive officer in March 2017; Mr. Boatwright was designated as an executive officer in September 2017; and Mr. Brandt joined the company in April 2018.

(8) Mr. Ells transitioned to Executive Chairman in March 2018, effective upon our appointment of Mr. Niccol as Chief Executive Officer.

## Grants of Plan-based Awards In 2018

| Name | Award Type | Grant Date | Estimated Future Payouts Under Non-equity Incentive Plan Awards[1] | | | Estimated Future Payouts Under Equity Incentive Plan Awards[2] | | | All Other Stock Awards: Number of Shares of Stock or Units (#) | All Other Option Awards: Number Of Securities Underlying Options[2] (#) | Exercise Or Base Price Of Option Awards ($/Sh) | Grant Date Fair Value Of Stock And Option Awards[3] ($) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target (#) | Maximum (#) | | | | |
| **BRIAN NICCOL** | | | | | | | | | | | | |
| | AIP[4] | – | $1,800,000 | $1,800,000 | $3,024,000 | | | | | | | |
| | RSUs[5] | 3/5/18 | | | | | | | 30,141 | | | $9,649,943 |
| | PSUs[6] | 3/29/18 | | | | 2,321 | 9,285 | 27,855 | | | | $3,000,076 |
| | SOSAR[5] | 3/5/18 | | | | | | | | 114,840 | $ 352.18 | $ 9,721,206 |
| | SOSAR[5] | 3/5/18 | | | | | | | | 53,086 | $400.20 | $ 4,011,709 |
| | SOSAR[7] | 3/29/18 | | | | | | | | 21,439 | $ 323.11 | $ 1,950,091 |
| **STEVE ELLS** | | | | | | | | | | | | |
| | AIP | – | $204,319 | $1,061,397 | $ 2,388,142 | | | | | | | |
| | SOSAR[8] | 1/5/18 | | | | | | | | 175,000 | $500.00 | $5,626,075 |
| **JACK HARTUNG** | | | | | | | | | | | | |
| | AIP | – | $130,900 | $680,000 | $ 1,428,000 | | | | | | | |
| | PSU[6] | 3/29/18 | | | | 1,393 | 5,571 | 16,713 | | | | $1,800,046 |
| | SOSAR[7] | 3/29/18 | | | | | | | | 14,742 | $ 355.42 | $ 1,231,989 |
| **CURT GARNER** | | | | | | | | | | | | |
| | AIP | – | $65,519 | $340,360 | $ 714,756 | | | | | | | |
| | RSU[7] | 1/5/18 | | | | | | | 4,780 | | | $ 1,499,916 |
| | PSU[6] | 3/29/18 | | | | 1,254 | 5,014 | 15,042 | | | | $ 1,620,074 |
| | SOSAR[7] | 1/5/18 | | | | | | | | 18,386 | $ 313.79 | $ 1,557,662 |
| | SOSAR[7] | 3/29/18 | | | | | | | | 13,268 | $ 355.42 | $ 1,108,807 |
| **SCOTT BOATWRIGHT** | | | | | | | | | | | | |
| | AIP | – | $53,928 | $280,146 | $ 588,307 | | | | | | | |
| | RSU[7] | 1/5/18 | | | | | | | 3,824 | | | $ 1,199,933 |
| | PSU[6] | 3/29/18 | | | | 789 | 3,157 | 9,471 | | | | $ 1,020,058 |
| | SOSAR[7] | 1/5/18 | | | | | | | | 14,709 | $ 313.79 | $ 1,246,146 |
| | SOSAR[7] | 3/29/18 | | | | | | | | 8,354 | $ 355.42 | $ 698,144 |
| **CHRIS BRANDT** | | | | | | | | | | | | |
| | AIP | – | $75,075 | $390,000 | $ 819,000 | | | | | | | |
| | RSU[5] | 3/29/18 | | | | | | | 1,548 | | | $ 481,676 |
| | PSU[6] | 3/29/18 | | | | 697 | 2,786 | 8,358 | | | | $ 866,892 |
| | SOSAR[5] | 3/29/18 | | | | | | | | 22,567 | $403.89 | $ 1,521,016 |
| | SOSAR[7] | 3/29/18 | | | | | | | | 7,372 | $ 355.42 | $ 561,820 |

(1) Each executive officer was entitled to a cash award to be paid under our 2014 Cash Incentive Plan; however, 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 – 2018 Compensation Program – Annual Incentive Plan." The "Threshold" column reflects amounts that would be paid under the AIP if each executive officer achieved the plan goals at the minimum level required to receive any payout. Amounts under Target reflect the target AIP bonus that 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 that 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 2018 Summary Compensation Table above.

(2) All equity awards are denominated in shares of common stock and were granted under the Amended and Restated Chipotle Mexican Grill, Inc. 2011 Stock Incentive Plan. See "Terms of 2018 Annual Performance Share Unit Awards" and "Terms of 2018 Annual SOSAR Awards" below for a description of the vesting terms for the Performance Shares and SOSARs granted during 2018.

(3) See Note 9 to our audited consolidated financial statements for the year ended December 31, 2018, which are included in our Annual Report on Form 10-K filed with the SEC on February 8, 2018, for descriptions of the methodologies and assumptions we used to value equity awards pursuant to FASB Topic 718.

(4) In connection with his joining Chipotle in March 2018, the company guaranteed Mr. Niccol's AIP for 2018 at no less than 150% of his base salary. The guarantee does not apply to 2019 or any future years.
(5) Grants of equity awards as make-whole or inducement awards when the executives joined Chipotle in early 2018. The SOSARs granted to Mr. Niccol have exercise prices equal to 110% and 125% of the closing stock price of Chipotle common stock on the grant date, and all awards granted to Mr. Niccol vest ratably over three years beginning on the first anniversary of the grant date. The awards to Mr. Brandt vest ratably on the second and third anniversary of the grant date.
(6) PSUs vest in March following the end of the performance period (January 1, 2018 — December 31, 2020) if and to the extent that both of the two performance goals are achieved.
(7) The SOSAR and the RSU awards vests 50% on the second anniversary and 50% on the third anniversary of the date of grant.
(8) The SOSAR vests in full on July 4, 2019 and can be exercised only between January 5, 2021 and January 5, 2022.

## Terms of 2018 Annual Performance Share Unit Awards

Performance share unit awards (PSUs) granted to the executive officers in 2018 will vest only if and to the extent that both of the two performance goals specified in the awards are achieved. The performance goals are comparable restaurant sales growth over a three-year performance period (2018 through 2020), and average restaurant-level cash flow margin over a two-year performance period (2019 and 2020). The payout range for the PSUs is 0% to 300%, and none of the PSUs will vest if either performance goal is below the threshold target of an average of 3.5% for comparable restaurant sales growth or 18.5% for average restaurant-level cash flow margin.

Vesting and payout of each PSU 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.

## Terms of 2018 Annual SOSAR Awards

Each stock only stock appreciation right (SOSAR) represents the right to receive shares of common stock in an amount equal to (i) the excess of the market price of the common stock at the time of exercise over the exercise price of the SOSAR, divided by (ii) the market price of the common stock at the time of exercise. The exercise price of the SOSARs for all executive officers, except Mr. Niccol, is equal to 110% of the closing price of our common stock on the date of grant. The exercise price of the annual grant of SOSARs to Mr. Niccol for 2018 is equal to the closing price of our common stock on the date of grant. The SOSARs are subject to vesting in two equal amounts on the second and third anniversary of the grant date, subject to potential acceleration of vesting in the event of termination due to death, disability, or retirement, and to potential accelerated vesting if the SOSARs are not replaced in the event of certain in control transactions. When he joined the company, Mr. Niccol was granted two one-time SOSAR grants as a make-whole award and an inducement award, and the exercise price of these SOSARs was 110% and 125% of the closing price of our common stock on the date of grant.

## Outstanding Equity Awards at Fiscal Year End 2018

| Name | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|
| | Number Of Securities Underlying Unexercised Options Exercisable(#) | Number Of Securities Underlying Unexercised Options Unexercisable(#) | Option Exercise Price($) | Option Expiration Date | Equity Incentive Plan Awards: Number Of Unearned Shares, Units Or Other Rights That Have Not Vested(#) | Equity Incentive Plan Awards: Market Or Payout Value Of Unearned Shares, Units Of Other Rights That Have Not Vested($)[1] |
| **Brian Niccol** | – | 114,840[3] | $ 352.18 | 3/24/2025 | 2,321[3] | $ 1,002,185 |
| | – | 53,086[2] | $400.20 | 3/4/2025 | 30,141[2] | $13,014,582 |
| | – | 21,439 | $ 323.11 | 3/28/2025 | | |
| **Steve Ells** | – | 175,000[4] | $500.00 | 1/5/2022 | 10,000[5] | $ 4,317,900 |
| | 87,500 | | $ 543.20 | 2/3/2021 | | |
| | 87,500 | | $ 543.20 | 2/3/2021 | | |
| **Jack Hartung** | 25,000 | – | $ 318.45 | 2/7/2020 | 1,393[3] | $ 601,483 |
| | – | 14,742 | $ 355.42 | 3/28/2025 | 4,500[5] | $ 1,943,055 |
| | 25,000 | – | $ 318.45 | 2/7/2020 | | |
| | 30,000 | – | $ 543.20 | 2/3/2021 | | |
| | 30,000 | – | $ 543.20 | 2/3/2021 | | |
| **Curt Garner** | – | 18,386 | $ 313.79 | 1/4/2025 | 1,254 | $ 541,465 |
| | 11,000 | – | $554.86 | 12/15/2022 | 4,780 | $2,063,956 |
| | – | 25,000 | $ 427.61 | 2/19/2024 | | |
| | – | 13,268 | $ 355.42 | 3/28/2025 | | |
| | 12,500 | 12,500 | $ 417.22 | 4/26/2023 | | |
| **Scott Boatwright** | – | 14,709 | $ 313.79 | 1/4/2025 | 789[3] | $ 340,682 |
| | – | 8,354 | $ 355.42 | 3/28/2025 | 3,824 | $ 1,651,597 |
| | – | 10,090 | $ 475.70 | 5/29/2024 | | |
| **Chris Brandt** | – | 22,567[2] | $ 403.89 | 3/28/2025 | 697 | $ 300,958 |
| | – | 7,372 | $ 355.42 | 3/28/2025 | 1,548[2] | $ 668,411 |

(1) Calculated Based on the closing stock price of our common stock on December 31, 2018 of $431.79 per share.

(2) Represents grants of SOSARs and RSUs awarded as make-whole or inducement awards when the executives joined Chipotle in early 2018. The SOSARs granted to Mr. Niccol have an exercise price equal to 110% and 125% of the closing stock price of Chipotle common stock on the grant date and vest ratably over three years beginning on the first anniversary of the grant date. The awards to Mr. Brandt vest ratably on the second and third anniversary of the grant date.

(3) Represents the annual grant of performance share units for 2018, assuming achievement at the threshold level (which would require achievement of threshold comparable restaurant sales growth over a three-year performance period (2018 through 2020) and threshold average restaurant-level cash flow margin over a two-year performance period (2019 and 2020)). The terms of the 2018 performance share awards are further described above under "– Terms of 2018 Annual Performance Share Unit Awards."

(4) Represents a one-time SOSAR grant to Mr. Ells under this Executive Chairman Agreement in connection with his transition from Chief Executive Officer to Executive Chairman. The SOSAR was granted in lieu of Mr. Ells' annual 2018 long-term equity award, has an exercise price of $500, which equates to an almost 60% premium to the closing stock price of Chipotle common stock on the grant date and vests in full on July 4, 2019, subject to Mr. Ells' continued employment through the vesting date.

(5) Represents the annual grant of performance share awards for 2017, 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 equals at least $600, in addition to achievement of comparable restaurant sales goals).

**Option Exercises and Stock Vested In Fiscal 2018**

| Name | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| | Number Of Shares Acquired On Exercise(#) | Value Realized On Exercise($) | Number Of Shares Acquired On Vesting(#)[1] | Value Realized On Vesting($)[2] |
| Brian Niccol | – | – | – | – |
| Steve Ells | – | – | 11,537 | $3,679,265 |
| Jack Hartung | – | – | 4,845 | $ 1,545,119 |
| Curt Garner | – | – | – | – |
| Scott Boatwright | – | – | – | – |
| Chris Brandt | – | – | – | – |

(1) Reflects the number of shares of Chipotle common stock acquired on vesting of restricted stock units.
(2) Equals closing price the Chipotle's common stock on the vesting date multiplied by the number of shares vested.

## NON-QUALIFIED DEFERRED COMPENSATION FOR 2018

The Chipotle Mexican Grill, Inc. Supplemental Deferred Investment Plan permits eligible management employees, including our executive officers, to make contributions to deferral accounts once the employee has maximized his or her contributions to our 401(k) plan. Contributions are made on the participant's behalf through payroll deductions from 1% to 50% of the participant's monthly base compensation, which are credited to the participant's "Supplemental Account," and from 1% to 100% of awards under the AIP, which are credited to the participant's "Deferred Bonus Account." We also match contributions at the rate of 100% on the first 3% of compensation contributed and 50% on the next 2% of compensation contributed. Amounts contributed to a participant's deferral accounts are not subject to federal income tax at the time of contribution, fluctuate in value based on the 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 their accounts 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 a participant's deferral account 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 2018, as well as each executive officer's earnings under the plan and ending balances in the plan on December 31, 2018.

| 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] |
|---|---|---|---|---|---|
| Brian Niccol | – | – | – | – | – |
| Steve Ells | $ 37,404 | $29,923 | $ 4,706 | $567,069 | $ 302,169 |
| Jack Hartung | $135,500 | $ 27,100 | $ 58,799 | $ 0 | $6,642,131 |
| Curt Garner | $ 112,041 | $ 21,392 | ($20,580) | $ 0 | $ 112,853 |
| Scott Boatwright | – | – | – | – | – |
| Chris Brandt | – | – | – | – | – |

(1) These amounts are reported in the 2018 Summary Compensation Table as part of each executive's "Salary" for 2018.

(2) These amounts are reported in the 2018 Summary Compensation Table as part of each executive's "All Other Compensation" for 2018.

(3) These amounts are not reported as compensation in the 2018 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 2018 (ignoring for purposes of this footnote any investment losses on balances in the plan and any withdrawals/distributions), in the following aggregate amounts: $2,501,415 for Mr. Ells and $5,658,831 for Mr. Hartung.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

### Agreements with our Named Executive Officers

#### *Agreement with New Chief Executive Officer*

On March 5, 2018, Brian Niccol was appointed CEO of Chipotle. In connection with his hiring, we entered into an offer letter with Mr. Niccol providing for an annualized base salary of $1.2 million, a target annual bonus opportunity for 2018 of 150% of his base salary (which was guaranteed for 2018 only), and a maximum annual bonus opportunity for 2018 of 225% of his base salary. In addition, the offer letter entitled Mr. Niccol to receive the following equity awards: (i) an annual equity award grant for 2018 consisting of (A) PSUs with a target value of $3.0 million as of the grant date, which will have the same terms and conditions as applicable to annual 2018 PSU awards granted to senior executives of Chipotle generally; and (B) SOSARs with a grant date value of $2.0 million and an exercise price equal to the closing price of Chipotle's common stock on the grant date, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting in the event of a termination of employment by Chipotle without cause or by Mr. Niccol for good reason, and a seven-year term; (ii) a sign-on award, which was made to Mr. Niccol on his start date, consisting of SOSARs in respect of 53,086 shares and an exercise price equal to 125% of the closing price of Chipotle's common stock on the grant date, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting as previously described, and a seven-year term; and (iii) a make-whole award – to replace forfeited unvested equity awards held at his prior employer – that was awarded to Mr. Niccol as of his start date and consisting of (A) SOSARs in respect of 114,840 shares and an exercise price equal to 110% of the closing price of Chipotle's common stock on the grant date, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting as previously described, and a seven-year term; and (B) RSUs totaling 30,141 shares, which will vest in equal amounts on the first, second and third anniversaries of the grant date, subject to possible acceleration of vesting as previously described.

The offer letter further provides that if Mr. Niccol's employment is terminated by Chipotle without cause, or by Mr. Niccol with good reason, prior to the fifth anniversary of the commencement of his employment with the company, Mr. Niccol will be entitled to a severance payment of two times the sum of his annual base salary and target annual bonus opportunity (or, if higher, the amount of the annual bonus paid to him for the fiscal year immediately preceding the fiscal year in which such termination of employment occurs). The offer letter also entitles Mr. Niccol to employee benefits generally offered by Chipotle from time to time, and further provides for the

payment to Mr. Niccol of a $1.0 million signing bonus, which had to be repaid if Mr. Niccol's employment with Chipotle terminated before the first anniversary of his start date.

Under the offer letter, Mr. Niccol has agreed that, (i) while he is employed by Chipotle and for a one-year period thereafter, he will not engage in a business competitive with Chipotle, and (ii) while he is employed by Chipotle and for a two-year period thereafter, he will not (a) solicit or hire Chipotle's employees, or (b) induce any of Chipotle's suppliers, licensees, or other business relations to cease doing business with Chipotle or interfere with the relationship between any such supplier, licensee, or other business relation and Chipotle. The offer letter also includes customary confidentiality and mutual non-disparagement provisions.

Terms of those agreements are described above under "Compensation Discussion and Analysis – Agreements with our Named Executive Officers."

### *Severance Arrangements*

We do not have a formal severance plan for our employees and, historically, we generally have not entered into written employment, change-in-control, severance or similar agreements with any of our employees, including our executive officers. In addition, payouts under the AIP and vesting and exercise of equity awards are conditioned on the employee being employed as of the payout, vesting or exercise date. However, in connection with our public search for a new Chief Executive Officer, our appointment of Mr. Niccol to that role and the transition of Mr. Ells to Executive Chairman, we entered into agreements with certain of our executive officers that contain limited, short-term post-termination benefits. We believe these agreements were necessary to ensure a smooth and orderly CEO transition and to ensure continuity of leadership during a time of potential uncertainty.

When Mr. Boatwright joined Chipotle in May 2017, we entered into an Executive Agreement with him providing that if his employment is terminated by us, other than for cause, at any time prior to May 29, 2019, he would be entitled to a severance payment of up to 12 months of his then current base salary. The number of months' salary to which he would be entitled is reduced by one for each month of employment following May 29, 2018 and the severance benefit fully lapses on May 29, 2019. Severance payments are conditioned on Mr. Boatwright's execution of a mutual release of claims and a non-competition agreement with the company.

As described above under "Agreement with New Chief Executive Officer," we signed an offer letter with Mr. Niccol in February 2018 providing that if his employment is terminated prior to March 5, 2023 by us, other than for cause, or by Mr. Niccol with good reason, he would be entitled to severance payments equal to two times the sum of his then current base salary plus his then current target bonus opportunity (or, if higher, his bonus payout for the immediately preceding fiscal year). The severance payments would be made in equal installments over the 24 months after his termination and are conditioned on Mr. Niccol's execution of a general release of claims against the company.

Mr. Brandt joined us in April 2018, and his offer letter provides that if his employment is terminated prior to March 9, 2023 by us, other than for cause, or by Mr. Brandt with good reason, he would be entitled to severance payments equal to the sum of his then current base salary plus his then current target bonus opportunity. Severance payments would be made in equal installments over the 12 months after his termination and are conditioned on Mr. Brandt's execution of a general release of claims against the company.

### *Executive Chairman Agreement*

On November 28, 2017, we entered into an Executive Chairman Agreement with Mr. Ells providing for his transition to the role of Executive Chairman of the Board, effective on March 5, 2018 when Brian Niccol was appointed as Chipotle's new CEO. Under the Agreement, Mr. Ells receive an annualized base salary of $900,000 and a target annual bonus opportunity under the AIP of 100% of his base salary for 2018, and he was awarded a special stock-only stock appreciation right (SOSAR) award on January 7, 2018, with an exercise price of $500 per share, which equated to a nearly 60% premium to the grant date stock price of $313.79. The SOSAR will vest on July 7, 2019, subject to Mr. Ells' continued employment through the vesting date, and possible accelerated vesting upon Mr. Ells' earlier termination of employment by Chipotle without cause, by Mr. Ells with good reason, or due to his death or disability. The SOSAR, if vested, will first be exercisable on January 5, 2021, and will expire on January 5, 2022. The SOSAR was granted in lieu of an annual long-term equity award for 2018 and the grant date fair value of this special SOSAR was $5.6 million, which was approximately 40% below Mr. Ells' 2017 annual LTI award as CEO. Under the agreement, Mr. Ells is subject to customary non-competition and non-solicitation restrictive covenants for two years. The agreement also includes customary confidentiality provisions and a mutual non-disparagement

covenant. If Mr. Ells' employment is terminated by Chipotle without cause or by Mr. Ells with good reason, then, subject to his continued compliance with the restrictive covenants set forth in the agreement, the company will continue to pay Mr. Ells his then-current base salary during the two-year restricted period.

### *Executive Officer Retention Awards*

On January 9, 2018, we entered into retention agreements with certain employees, including Messrs. Hartung, Garner and Boatwright. The retention agreements were intended to encourage the executives' continued service to Chipotle during the pendency of a public search for Chipotle's next Chief Executive Officer and the subsequent leadership transition, and were approved by the Compensation Committee.

The agreement with Mr. Hartung provides for a cash retention bonus of $1,000,000, payable on March 5, 2019, which is the first anniversary of the appointment of a permanent successor to Steve Ells as Chipotle's Chief Executive Officer. The agreements with Messrs. Garner and Boatwright provide for cash retention bonuses of $500,000 for Mr. Garner and $400,000 for Mr. Boatwright, which were paid in equal installments at the end of each calendar quarter of 2018. In each case, retention payments were subject to the executive's continuous employment with Chipotle through the payment date. Payment of the retention award for each executive would be accelerated and paid in full if the executive's employment was terminated prior to the scheduled payment date by us, other than for cause, or by the executive with good reason.

Additionally, the agreements for Messrs. Garner and Boatwright provided for awards of SOSARs in respect of 18,386 shares for Mr. Garner and 14,709 shares for Mr. Boatwright, and RSUs in respect of 4,780 shares for Mr. Garner and 3,824 shares for Mr. Boatwright. The SOSARs have an exercise price of $313.79 per share, which was the closing price of Chipotle common stock as of the grant date, and both the SOSARs and RSUs are scheduled to vest equally on the second and third anniversaries of the grant date, subject to possible acceleration of vesting in the event of the recipient's termination without cause or resignation for good reason, or a change in control of Chipotle without issuance of a replacement award to the recipient.

## Equity Awards

The terms of some equity-based award agreements, including for awards granted to our executive officers, provide for post-employment benefits in certain circumstances.

*Performance Share Units*. The award agreements for the performance share units provide that if the holder's employment terminates due to death, disability or retirement, the PSUs will vest on a pro-rata basis, based on the portion of the performance period during which the holder was employed by the company, and will be settled at the same time the PSUs are settled with respect to other PSU holders. Retirement is defined as the holder having a combined age and years of service with the company equal to at least 70. In the event a change in control of the company occurs, the PSUs will immediately vest at the greater of target or actual performance through the date the change in control is completed; provided that, in lieu of immediate vesting, the Compensation Committee may approve the replacement of the company's PSUs with a comparable performance share unit issued by the company's successor.

*Stock Appreciation Rights*. The award agreements for the stock-only stock appreciation rights (SOSARs) provide that if the holder's employment terminates due to death or disability, any unvested SOSARs as of the termination date will immediately vest and will remain exercisable until the third anniversary of the termination date. If the holder's employment terminates due to retirement, any unvested SOSARs will continue to vest on the regularly scheduled vesting date as if the holder remained employed by the company, and the SOSARs will be exercisable until the third anniversary of the termination date, in the case of any SOSARs that were vested as of the termination date, and the third anniversary of the applicable vesting date, in the case of any SOSARs that were unvested as of the termination date. Retirement is defined as the holder having a combined age and years of service with the company equal to at least 70. In the event a change in control of the company occurs that results in our common stock being removed from listing on a national securities exchange, the Compensation Committee is required to arrange for the substitution for any unvested SOSARs with the grant of a replacement award that provides the holder with substantially the same economic value and benefits and that vest on the earlier of the date the SOSARs would otherwise have vested under the terms of this SOSAR Agreement and the third anniversary of the grant date.

*Restricted Stock Units*. The award agreements for the RSUs provide that if the holder's employment terminates due to death, disability or the consummation of a change in control of the company, any unvested RSUs as of the termination date will immediately vest; however, the vesting of the RSUs held by Mr. Niccol do not accelerate or continue if the holder's employment terminates due to retirement or the occurrence of a change in control of the company.

The following table presents the potential estimated payments to each executive officer named in this proxy statement if he were terminated as a result of the indicated triggering event as of December 31, 2018, the last day of the fiscal year. The table does not include amounts that we would need to pay regardless of the occurrence of the indicated triggering event, such as accumulated balances in retirement plans. In calculating the amounts reflected in the table, we assumed the following:

- each triggering event occurred on December 31, 2018, the last trading day of fiscal 2018, and a price per share of our common stock $431.79, the closing price of Chipotle common stock on December 31, 2018;
- the executive earned the AIP at the actual payout amount for 2018, since he was employed by the company through the end of the year; and
- with respect to PSUs, awards were earned at target levels.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

| Officer | Termination without Cause or By Executive for Good Reason | Change in Control (Double Trigger)[1] | Retirement[2] | Death or Disability |
|---|---|---|---|---|
| **BRIAN NICCOL** | | | | |
| Salary Continuation[3] | $ 2,400,000 | $ 0 | $ 0 | $ 0 |
| Annual Bonus[3] | $ 3,600,000 | $ 0 | $ 0 | $ 0 |
| One-time Equity Grants[4] | $23,833,982 | $10,819,399 | $ 0 | $23,833,982 |
| Annual Equity Grants | $ 2,329,991 | $ 6,339,161 | $ 0 | $ 3,431,717 |
| **STEVE ELLS** | | | | |
| Salary Continuation[5] | $ 1,800,000 | $ 0 | $ 0 | $ 0 |
| Annual Bonus[6] | $ 0 | $ 0 | $ 0 | $ 0 |
| One-time Equity Grant[7] | $ 0 | $ 0 | $ 0 | $ 0 |
| Annual Equity Grants | $ 0 | $8,635,800 | $ 0 | $ 5,362,871 |
| **JACK HARTUNG** | | | | |
| Salary Continuation | $ 0 | $ 0 | $ 0 | $ 0 |
| Annual Bonus[6] | $ 0 | $ 0 | $ 0 | $ 0 |
| Retention Bonus[8] | $ 1,000,000 | $1,000,000 | $ 0 | $ 0 |
| Annual Equity Grants | $ 0 | $ 7,417,459 | $3,659,706 | $ 3,659,706 |
| **CURT GARNER** | | | | |
| Salary Continuation | $ 0 | $ 0 | $ 0 | $ 0 |
| Annual Bonus[6] | $ 0 | $ 0 | $ 0 | $ 0 |
| One-time Equity Grant | $ 4,233,504 | $4,233,504 | $ 0 | $ 0 |
| Annual Equity Grants | $ 0 | $3,464,897 | $ 0 | $ 1,894,846 |
| **SCOTT BOATWRIGHT** | | | | |
| Salary Continuation[9] | $ 179,581 | $ 0 | $ 0 | $ 0 |
| Annual Bonus[6] | $ 0 | $ 0 | $ 0 | $ 0 |
| One-time Equity Grant | $ 3,386,827 | $ 3,386,827 | $ 0 | $ 0 |
| Annual Equity Grants | $ 0 | $ 2,001,156 | $ 0 | $ 1,012,594 |
| **CHRIS BRANDT** | | | | |
| Salary Continuation[10] | $ 600,000 | $ 0 | $ 0 | $ 0 |
| Annual Bonus[10] | $ 390,000 | $ 0 | $ 0 | $ 0 |
| One-time Equity Grant | $ 0 | $ 1,298,030 | $ 0 | $ 1,298,030 |
| Annual Equity Grants | $ 0 | $ 1,765,967 | $ 0 | $ 893,577 |

(1) Reflects amounts the executive may receive if both a change in control of Chipotle occurs and the executive's employment is terminated (other than for cause or by the executive for good reason). If a successor company grants the executive comparable equity awards in replacement of the outstanding Chipotle awards, no accelerated vesting would occur.
(2) Retirement is defined as the executive having achieved a combined age and years of service equal to at least 70. Mr. Hartung is the only executive who is eligible for retirement treatment as of December 31, 2018.
(3) Mr. Niccol's offer letter provides that if his employment is terminated prior to March 5, 2023 by Chipotle without cause, or by him with good reason, he would be entitled to severance payments equal to two-times the sum of his base salary plus his target bonus opportunity (or, if higher, his bonus payout for the immediately preceding fiscal year).
(4) Represents the accelerated vesting of the inducement and make-whole equity awards granted to Mr. Niccol when he joined Chipotle, assuming he experienced a qualifying termination as of December 31, 2018. Value is calculated based on the closing stock price of Chipotle common stock on December 31, 2018 of $431.79 per share.
(5) If Mr. Ells' employment is terminated by Chipotle without cause or by him with good reason, the company has agreed to continue to pay his base salary for two years.
(6) Assumes the executive fully earned the AIP at the actual payout amount for 2018, so it is not reflected in the table.
(7) Mr. Ells' one-time SOSAR grant to purchase 175,000 shares would vest upon termination by Chipotle without cause or by him with good reason; however, the stock option was not in the money as of December 31, 2018 so it is not reflected in the table.
(8) Represents the acceleration of Mr. Hartung's retention award, which otherwise is payable on March 5, 2019.
(9) Mr. Boatwright's executive agreement provides that if his employment is terminated prior to May 29, 2019 by Chipotle without cause, he would be entitled to a severance payment of up to 12 months of his then-current base salary' however, the number of months' salary to which he would be entitled is reduced by one for each month of employment following May 29, 2018.
(10) Mr. Brandt's offer letter provides that if his employment is terminated prior to March 9, 2023 by Chipotle without cause, or by him with good reason, Mr. Brandt would be entitled to severance payments equal to the sum of his base salary plus his target bonus opportunity.

## CEO PAY RATIO

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, U.S. publicly-traded companies are required to disclose the ratio of their CEO's annual total compensation to the median of the annual total compensation of all employees of the company other than the CEO. This disclosure is required in this proxy statement and requires that our median employee be selected from all employees, including full-time, part-time, seasonal and temporary employees.

Because the SEC rules for identifying the median employee and calculating the pay ratio permit companies to use various methodologies and assumptions, apply certain exclusions, and make reasonable estimates that reflect their employee populations and compensation practices, the pay ratio reported by other companies may not be comparable with the pay ratio that we have reported. For example, Chipotle employs almost 73,000 people in our 2,500 restaurants around the world, and about 67,900 are hourly employees working on our restaurant crew. Importantly, all of our restaurants are company-owned and not franchised, which will impact the comparability of our CEO pay ratio to the ratio of many other restaurant or retail companies that operate under a franchise model (and who do not employ all of the restaurant crews).

We calculated our CEO to median employee pay ratio in accordance with the Dodd-Frank Act and Item 402(u) of the SEC's Regulation S-K, to arrive at a reasonable estimate calculated in accordance with SEC regulations and guidance. We identified our median employee by using total 2018 compensation for all individuals, excluding our CEO, who were employed by us on December 31, 2018 (annualized in the case of full- and part-time employees who joined Chipotle during 2018). To arrive at a consistently applied compensation measure, we excluded from total 2018 compensation certain unusual or non-recurring items not available to all employees generally. This resulted in identification of a median employee with total compensation of $13,779, which is the annualized compensation for an hourly employee who works part-time at one of our restaurants in the Midwest United States. This total compensation figure is not necessarily representative of the compensation of other restaurant employees or of our overall compensation practices.

For our CEO, we used the total compensation for Brian Niccol, our CEO, as reported in the 2018 Summary Compensation Table; however, since Mr. Niccol was appointed CEO in March 2018, we annualized Mr. Niccol's base salary as if he had joined Chipotle on January 1, 2018. Based on an annual total compensation of our median employee for 2018 of $13,779, and the annualized total compensation for our CEO in 2018 of $33.6 million, the ratio of our CEO's annual total compensation to our median employee's annual total compensation is 2,450 to 1. However, a significant majority of Mr. Niccol's 2018 total compensation is attributable to several one-time equity awards granted to him when he joined the company. In connection with Mr. Niccol joining Chipotle in March 2018, the company granted him (i) a one-time award of stock appreciation rights as a sign-on inducement, and (ii) a one-time award of stock appreciation rights and a restricted stock unit as make-whole awards to replace

unvested equity awards Mr. Niccol forfeited when he terminated employment with his former employer in order to join Chipotle. These one-time awards had a value of $23.4 million, based on the closing price of Chipotle common stock on the date they were granted. Excluding the value of these one-time equity awards, which were not repeated in 2019, the CEO to median employee pay ratio would be 680 to 1. We believe that excluding the one-time equity awards granted to our CEO when he was hired results in a more meaningful comparison of ongoing compensation our CEO will receive and offers a better comparison to our median-compensated employee.

## 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 2018, except for the following: Chipotle inadvertently failed to file one Form 4 for each of Messrs. Baldocchi, Cappuccio, Flanzraich and Musk and Ms. Hickenlooper, directors of the company, to reflect their receipt of an annual director's grant of restricted stock units. The RSUs were granted in May 2018 and the Form 4s were filed in February 2019, promptly after the oversight was discovered.

### 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, who is now our Executive Chairman, and Albert S. Baldocchi, a member 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 2020 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 2020 annual meeting of shareholders pursuant to SEC Rule 14a-8 must be received by us no later than December 3, 2019, unless the date of our 2020 annual meeting is more than 30 days before or after May 21, 2020, 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., 610 Newport Center Dr., Suite 1300, Newport Beach, CA 92660, Attn: Corporate Secretary.

### Inclusion of Director Nominations in Our Proxy Statement and Proxy Card under our Proxy Access Bylaws

Our proxy access bylaws permit qualified shareholders or groups of shareholders to include nominations for election as a director in our proxy statement and form of proxy/voting instruction card, if the shareholder(s) comply with the proxy access provisions in our bylaws. For the 2020 annual meeting, notice of a proxy access nomination must be received at the address provided above no earlier than November 3, 2019, and no later than December 3, 2019.

### 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 2020 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 22, 2020, and no later than the close of business on February 21, 2020, unless the date of the 2020 annual meeting is more than 30 days before or 60 days after May 21, 2020. If the date of the 2020 annual meeting is more than 30 days before or 60 days after May 21, 2020, we must receive the proposal or nomination no earlier than the 120th day before the meeting date and no later than the 90th 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 2020 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., Newport Center Dr. Suite 1300, Newport Beach, CA 92660, 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 writing to Investor Relations, Chipotle Mexican Grill, Inc., 610 Newport Center Dr., Suite 1300, Newport Beach, CA 92660, or by email to *ir@chipotle.com* or by calling (949) 524-4132. We will promptly deliver a separate copy to you upon written or oral request.

## ATTENDANCE AT THE MEETING

To attend the meeting, you must be a shareholder on the record date of March 26, 2019 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 17, 2019. 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 2018 Annual Report, including our Annual Report on Form 10-K for fiscal year 2018 (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.

## MANAGEMENT TEAM

Brian Niccol
*Chief Executive Officer*

Marissa Andrada
*Chief People Officer*

Curt Garner
*Chief Technology Officer*

Tabassum Zalotrawala
*Chief Development Officer*

Steve Ells
*Founder, Executive Chairman*

Scott Boatwright
*Chief Restaurant Officer*

Laurie Schalow
*Chief Communications Officer*

Jack Hartung
*Chief Financial Officer*

Chris Brandt
*Chief Marketing Officer*

Roger Theodoredis
*Chief Legal Officer and General Counsel*

## BOARD OF DIRECTORS

Steve Ells
*Director since 1996*
*Founder, Executive Chairman, Chipotle Mexican Grill*

Brian Niccol
*Director since 2018*
*Chief Executive Officer, Chipotle Mexican Grill*

Neil Flanzraich
*Director since 2007*
*Private Investor and Executive Chairman, Cantex Pharmaceuticals, Inc.*

Albert Baldocchi
*Director since 1997*
*Self-employed financial consultant and strategic advisor*

Paul Cappuccio
*Director since 2016*
*Retired Executive Vice President and General Counsel, Time Warner*

Patricia Fili-Krushel
*Director since 2019*
*Chief Executive Officer, Center for Talent Innovation*

Robin Hickenlooper
*Director since 2016*
*Senior Vice President of Corporate Development, Liberty Media*

Scott Maw
*Director since 2019*
*Retired Executive Vice President and Chief Financial Officer, Starbucks Corporation*

Kimbal Musk
*Director since 2013*
*Entrepreneur and restaurateur*

Ali Namvar
*Director since 2016*
*Private investor*

Matthew Paull
*Director since 2016*
*Retired Senior Vice President and Chief Financial Officer, McDonald's Corp.*

## STOCK EXCHANGE LISTING

New York Stock Exchange (Symbol: CMG)

## AUDITORS

Ernst & Young LLP | Irvine, California

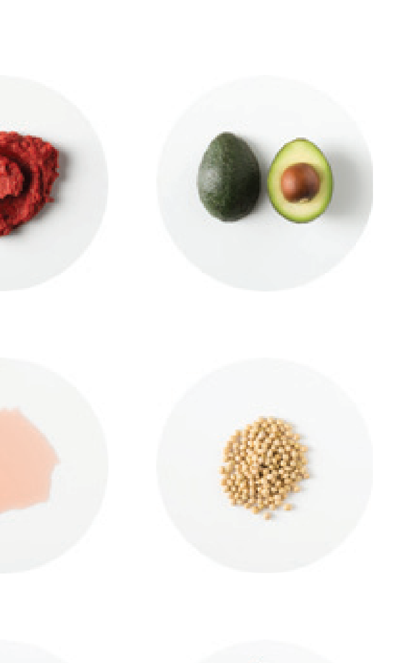
## STOCK TRANSFER AGENT

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

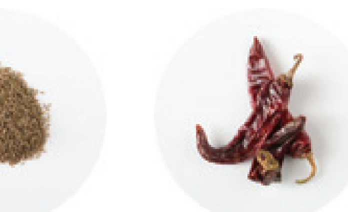
*By mail:*
EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100

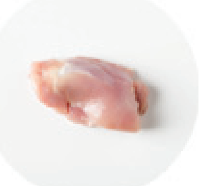
*Online:*
www.shareowneronline.com

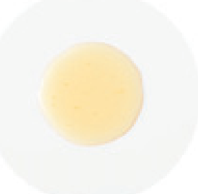
*Stockholders may obtain copies of Chipotle's annual report on Form 10-K for the year ended December 31, 2018 (exclusive of exhibits), including our audited financial statements, as well as other reports we file with the SEC, at no cost, on the investor relations page of our website at ir.chipotle.com, or by writing to the Corporate Secretary, Chipotle Mexican Grill, Inc., 610 Newport Center Drive, Newport Beach, CA 92660.*

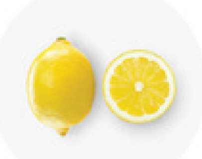
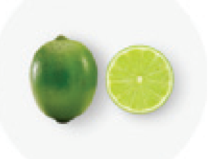


THE ONLY INGREDIENT THAT'S
HARD TO PRONOUNCE
AT CHIPOTLE IS "CHIPOTLE."







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