

CHIPOTLE MEXICAN GRILL INC

Form 10-Q

October 26, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from to

Commission File Number: 1-32731

CHIPOTLE MEXICAN GRILL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1219301
(IRS Employer
Identification No.)

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1401 Wynkoop St., Suite 500 Denver, CO 80202
(Address of Principal Executive Offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 21, 2016, there were 28,949,162 shares of the registrant's common stock, par value of \$0.01 per share outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Chipotle Mexican Grill, Inc.

Condensed Consolidated Balance Sheet

(in thousands, except per share data)

| | September 30, 2016 (unaudited) | December 31, 2015 |
|--|---|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 154,128 | \$ 248,005 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,275 and \$1,176 as of September 30, 2016 and December 31, 2015, respectively | 22,103 | 38,283 |
| Inventory | 18,382 | 15,043 |
| Prepaid expenses and other current assets | 45,250 | 39,965 |
| Income tax receivable | 24,013 | 58,152 |
| Investments | 205,021 | 415,199 |
| Total current assets | 468,897 | 814,647 |
| Leasehold improvements, property and equipment, net | 1,278,672 | 1,217,220 |
| Long term investments | 250,659 | 622,939 |
| Other assets | 46,866 | 48,321 |
| Goodwill | 21,939 | 21,939 |
| Total assets | \$ 2,067,033 | \$ 2,725,066 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 74,682 | \$ 85,709 |
| Accrued payroll and benefits | 97,009 | 64,958 |
| Accrued liabilities | 107,808 | 129,275 |
| Total current liabilities | 279,499 | 279,942 |
| Deferred rent | 279,359 | 251,962 |
| Deferred income tax liability | 33,862 | 32,305 |
| Other liabilities | 33,293 | 32,883 |
| Total liabilities | 626,013 | 597,092 |
| Shareholders' equity: | | |
| Preferred stock, \$0.01 par value, 600,000 shares authorized, no shares issued as of September 30, 2016 and December 31, 2015, respectively | - | - |
| Common stock \$0.01 par value, 230,000 shares authorized, and 35,830 and 35,790 shares issued as of September 30, 2016 and December 31, 2015, respectively | 358 | 358 |
| Additional paid-in capital | 1,223,760 | 1,172,628 |
| Treasury stock, at cost, 6,848 and 5,206 common shares at September 30, 2016 and December 31, 2015, respectively | (1,982,488) | (1,234,612) |

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| | | |
|---|--------------|--------------|
| Accumulated other comprehensive income (loss) | (5,446) | (8,273) |
| Retained earnings | 2,204,836 | 2,197,873 |
| Total shareholders' equity | 1,441,020 | 2,127,974 |
| Total liabilities and shareholders' equity | \$ 2,067,033 | \$ 2,725,066 |

See accompanying notes to condensed consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Condensed Consolidated Statement of Income and Comprehensive Income

(unaudited)

(in thousands, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$ 1,036,982 | \$ 1,216,890 | \$ 2,869,824 | \$ 3,503,716 |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | | | |
| Food, beverage and packaging | 363,900 | 401,051 | 999,968 | 1,166,770 |
| Labor | 286,144 | 270,076 | 820,751 | 785,141 |
| Occupancy | 74,201 | 66,391 | 217,147 | 194,269 |
| Other operating costs | 166,045 | 134,879 | 473,390 | 378,779 |
| General and administrative expenses | 78,405 | 70,066 | 211,171 | 203,339 |
| Depreciation and amortization | 37,434 | 33,145 | 108,296 | 96,228 |
| Pre-opening costs | 4,490 | 4,367 | 13,044 | 11,470 |
| Loss on disposal and impairment of assets | 16,637 | 2,156 | 22,040 | 7,744 |
| Total operating expenses | 1,027,256 | 982,131 | 2,865,807 | 2,843,740 |
| Income from operations | 9,726 | 234,759 | 4,017 | 659,976 |
| Interest and other income, net | 672 | 1,518 | 3,584 | 4,483 |
| Income before income taxes | 10,398 | 236,277 | 7,601 | 664,459 |
| Provision for income taxes | (2,599) | (91,394) | (638) | (256,731) |
| Net income | \$ 7,799 | \$ 144,883 | \$ 6,963 | \$ 407,728 |
| Other comprehensive income, net of income taxes: | | | | |
| Foreign currency translation adjustments | (203) | (1,718) | 961 | (4,699) |
| Unrealized gain (loss) on investments, net of income taxes of \$(346), \$0, \$1,185, and \$0 | (536) | - | 1,866 | - |
| Other comprehensive income (loss), net of income taxes | (739) | (1,718) | 2,827 | (4,699) |
| Comprehensive income | \$ 7,060 | \$ 143,165 | \$ 9,790 | \$ 403,029 |
| Earnings per share: | | | | |
| Basic | \$ 0.27 | \$ 4.65 | \$ 0.24 | \$ 13.10 |
| Diluted | \$ 0.27 | \$ 4.59 | \$ 0.23 | \$ 12.92 |
| Weighted average common shares outstanding: | | | | |
| Basic | 29,063 | 31,187 | 29,387 | 31,115 |
| Diluted | 29,171 | 31,548 | 29,792 | 31,556 |

See accompanying notes to condensed consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Condensed Consolidated Statement of Cash Flows

(unaudited)

(in thousands)

| | Nine months ended September 30, 2016 | 2015 |
|---|---|------------|
| Operating activities | | |
| Net income | \$ 6,963 | \$ 407,728 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 108,296 | 96,228 |
| Deferred income tax (benefit) provision | 380 | (12,542) |
| Loss on disposal and impairment of assets | 22,040 | 7,744 |
| Bad debt allowance | 99 | (27) |
| Stock-based compensation expense | 48,389 | 59,725 |

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| | | |
|--|------------|------------|
| Excess tax benefit on stock-based compensation | (1,888) | (74,861) |
| Other | (224) | 273 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 16,084 | 10,637 |
| Inventory | (3,442) | (2,212) |
| Prepaid expenses and other current assets | (5,362) | (3,028) |
| Other assets | 1,509 | (3,967) |
| Accounts payable | (11,938) | 7,101 |
| Accrued liabilities | 36,245 | (7,434) |
| Income tax payable/receivable | 36,026 | 77,858 |
| Deferred rent | 27,319 | 21,532 |
| Other long-term liabilities | 576 | 3,808 |
| Net cash provided by operating activities | 281,072 | 588,563 |
| Investing activities | | |
| Purchases of leasehold improvements, property and equipment | (192,252) | (181,840) |
| Purchases of investments | - | (433,829) |
| Maturities of investments | 45,000 | 287,450 |
| Proceeds from sale of investments | 540,648 | - |
| Net cash provided by (used in) investing activities | 393,396 | (328,219) |
| Financing activities | | |
| Acquisition of treasury stock | (771,354) | (147,122) |
| Excess tax benefit on stock-based compensation | 1,888 | 74,862 |
| Stock plan transactions and other financing activities | 23 | (225) |
| Net cash used in financing activities | (769,443) | (72,485) |
| Effect of exchange rate changes on cash and cash equivalents | 1,098 | (3,162) |
| Net change in cash and cash equivalents | (93,877) | 184,697 |
| Cash and cash equivalents at beginning of period | 248,005 | 419,465 |
| Cash and cash equivalents at end of period | \$ 154,128 | \$ 604,162 |

See accompanying notes to condensed consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

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

1. Basis of Presentation

Chipotle Mexican Grill, Inc., a Delaware corporation, together with its subsidiaries (collectively the “Company”), develops and operates fast-casual, fresh Mexican food restaurants (“Chipotle restaurants”). As of September 30, 2016, the Company operated 2,129 Chipotle restaurants throughout the United States. The Company also had 15 Chipotle restaurants in Canada, six in England, five in France, and one in Germany. Further, the Company operated 15 ShopHouse Southeast Asian Kitchen restaurants, or “ShopHouse,” serving fast-casual, Asian inspired cuisine, and is an investor in a consolidated entity that owned and operated seven Pizzeria Locale restaurants, a fast-casual pizza concept. The Company managed its operations based on 10 regions during the third quarter 2016 and has aggregated its operations to one reportable segment.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by U.S. generally accepted accounting principles for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2015.

2. Accounting Policies

Revenue Recognition

The Company recognizes revenue, net of discounts and incentives, when payment is tendered at the point of sale. The Company recognizes a liability for offers of free food that do not require customers to make a purchase by estimating the cost to satisfy the offer based on company-specific historical redemption patterns for similar promotions. These costs are recognized in other operating costs in the consolidated statement of income and in accrued liabilities in the consolidated balance sheet. The Company reports revenue net of sales-related taxes collected from customers and remitted to governmental taxing authorities.

During the third quarter, the Company introduced a limited-time frequency program called Chiptopia Summer Rewards. Customers earned different rewards based on their number of monthly visits from July 1, 2016, through September 30, 2016. For the three months ended September 30, 2016, the Company deferred \$11,457 of revenue reflecting the portion of original sales allocated to the rewards that were earned by program participants and not redeemed as of September 30, 2016, and recorded a corresponding liability in accrued liabilities on its condensed consolidated balance sheet. The portion of revenue allocated to the rewards is based on the estimated value of the award earned and takes into consideration company-specific historical redemption patterns for similar promotions.

Rewards expire according to the terms in the Chiptopia Summer Rewards terms and conditions. When a customer redeems a reward or when it expires, the Company will recognize revenue for the redeemed product and reduce the related liability.

Recently Issued Accounting Standards

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

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

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718).” The pronouncement was issued to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity

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or liabilities, and the classification on the statement of cash flows. The pronouncement is effective for reporting periods beginning after December 15, 2016. This guidance will be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update. Upon adoption, any future excess tax benefits or deficiencies will be recorded to the provision for income taxes in the consolidated statement of income, instead of additional paid-in capital in the consolidated balance sheets. For the nine months ended September 30, 2016, and for the year ended December 31, 2015, \$1,888 and \$74,442, respectively, of excess tax benefits were recorded to additional paid-in capital that would have been recorded as a reduction to the provision for income taxes if this new guidance could have been adopted as of the respective dates. Additionally, excess tax benefits will be classified as operating activities in the consolidated statement of cash flow instead of in financing activities as required under the current guidance. The Company has not selected a transition method, and except as described above, does not expect the provisions of the ASU to have a significant impact on the Company's consolidated financial position or results of operations.

Recently Adopted Accounting Standards

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

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

3. Fair Value of Financial Instruments

The carrying value of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of their short-term nature. Investments are carried at fair market value and are classified as available-for-sale. Investments consist of U.S. treasury notes with maturities up to approximately 18 months. Fair value of investments is measured using Level 1 inputs (quoted prices for identical assets in active markets).

The following is a summary of available-for-sale securities:

| | September 30, 2016 | December 31, 2015 |
|---------------------------------|--------------------------|-------------------------|
| Amortized cost | \$ 455,097 | \$ 1,040,850 |
| Gross unrealized gains (losses) | 583 | (2,712) |
| Fair market value | \$ 455,680 | \$ 1,038,138 |

There were no realized gains (losses) from sales of available-for-sale securities during the three months ended September 30, 2016 and 2015. Realized gains were \$547 and \$0 for the nine months ended September 30, 2016 and 2015, respectively. The Company records realized gains and losses from sales of available-for-sale securities in

interest and other income (expense) in the consolidated statement of income.

The Company also maintains a rabbi trust to fund obligations under a deferred compensation plan. Amounts in the rabbi trust are invested in mutual funds, which are designated as trading securities and carried at fair value, and are included in other assets in the consolidated balance sheet. Fair market value of mutual funds is measured using Level 1 inputs. The fair value of the investments in the rabbi trust was \$17,515 and \$18,331 as of September 30, 2016 and December 31, 2015, respectively. The Company records trading gains and losses in general and administrative expenses in the consolidated statement of income, along with the offsetting amount related to the increase or decrease in deferred compensation to reflect its exposure to liabilities for payment under the deferred plan. The following table sets forth unrealized gains and losses on investments held in the rabbi trust:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|--|------------|---|----------|
| | 2015 | | 2015 | |
| Unrealized gains (losses) on investments held in rabbi trust | \$ 391 | \$ (1,000) | \$ 677 | \$ (744) |

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4. Impairment of Long-Lived Assets

During the three months ended September 30, 2016, the Company determined that its ShopHouse restaurants were impaired and recognized a non-cash impairment charge of \$14,505 (\$8,539 net of tax), representing substantially all of the value of the long-lived assets of ShopHouse, in loss on disposal and impairment of assets on the consolidated statement of income and comprehensive income (\$0.29 on basic and dilutive earnings per share). The decision to impair the assets was based on an analysis of each restaurant's past and present operating performance, including a significant change from comparable restaurant sales increases to decreases, and projected future cash flows expected to be generated by the restaurant assets. The fair value of ShopHouse restaurants was determined using level 3 inputs (unobservable inputs) based on a discounted cash flows method. The Company has decided not to invest further in developing and growing the ShopHouse brand and will pursue strategic alternatives.

5. Shareholders' Equity

Through September 30, 2016, the Company had announced authorizations by its Board of Directors of repurchases of shares of common stock, which in the aggregate authorized expenditures of up to \$2,000,000. On October 25, 2016, the Company announced that its Board of Directors authorized the expenditure of up to an additional \$100,000 to repurchase shares of common stock. Under the remaining repurchase authorization, shares may be purchased from time to time in open market transactions, subject to market conditions.

During the nine months ended September 30, 2016, the Company repurchased 1,641 shares of common stock under authorized programs, for a total cost of \$747,237. The cumulative shares repurchased under authorized programs as of September 30, 2016, were 6,693 for a total cost of \$1,931,164. As of September 30, 2016, \$69,207 was available to repurchase shares under the announced repurchase authorizations. The shares are being held in treasury stock until such time as they are reissued or retired at the discretion of the Board of Directors.

6. Stock-based Compensation

During the nine months ended September 30, 2016, the Company granted stock only stock appreciation rights ("SOSARs") on 460 shares of its common stock to eligible employees. The weighted average grant date fair value of the SOSARs was \$117.48 per share with a weighted average exercise price of \$457.77 per share based on the closing price of common stock on the date of grant. The SOSARs vest in two equal installments on the second and third anniversary of the grant date. During the nine months ended September 30, 2016, 118 SOSARs were exercised and 77 SOSARs were forfeited.

During the first quarter of 2016, the Company awarded shares that are subject to both service and market vesting conditions. The quantity of shares that will vest may range from 0% to 400% of a targeted number of shares, and will be determined based on the price of the Company's common stock reaching certain targets for a consecutive number of days during the three year period starting on the grant date. If the minimum defined stock price target is not met, then no shares will vest.

The following table sets forth total stock based compensation expense:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Stock based compensation expense | \$ 18,636 | \$ 20,668 | \$ 49,357 | \$ 58,562 |
| Stock based compensation expense (net of tax) | \$ 10,971 | \$ 12,758 | \$ 29,056 | \$ 36,150 |
| Stock based compensation expense recognized as capitalized development | \$ 285 | \$ 329 | \$ 968 | \$ 1,163 |

During the first quarter of 2016, the Company adjusted its estimate of stock awards expected to vest based on performance conditions, which resulted in a cumulative reduction of expense of \$6,031 (\$3,687 net of tax and \$0.12 to basic and diluted earnings (loss) per share).

7. 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 common shares related to SOSARs and non-vested stock awards (collectively “stock awards”). Stock awards are excluded from the calculation of diluted EPS in the event they are subject to performance conditions or are antidilutive. 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 antidilutive effect.

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The following stock awards were excluded from the calculation of diluted earnings per share:

| | Three months ended | | Nine months ended | |
|---|--------------------|------|--------------------|------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Stock awards subject to performance conditions | 226 | 216 | 276 | 282 |
| Stock awards that were antidilutive | 1,356 | 320 | 1,312 | 267 |
| Total stock awards excluded from diluted earnings per share | 1,582 | 536 | 1,588 | 549 |

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

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|--------------------|------------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Net income | \$ 7,799 | \$ 144,883 | \$ 6,963 | \$ 407,728 |
| Shares: | | | | |
| Weighted average number of common shares outstanding | 29,063 | 31,187 | 29,387 | 31,115 |
| Dilutive stock awards | 108 | 361 | 405 | 441 |
| Diluted weighted average number of common shares outstanding | 29,171 | 31,548 | 29,792 | 31,556 |
| Basic earnings per share | \$ 0.27 | \$ 4.65 | \$ 0.24 | \$ 13.10 |
| Diluted earnings per share | \$ 0.27 | \$ 4.59 | \$ 0.23 | \$ 12.92 |

8. Commitments and Contingencies

Receipt of Grand Jury Subpoenas

In December 2015, the Company was served with a Federal Grand Jury Subpoena from the U.S. District Court for the Central District of California in connection with an official criminal investigation being conducted by the U.S. Attorney's Office for the Central District of California, in conjunction with the U.S. Food and Drug Administration's Office of Criminal Investigations. The subpoena required the Company to produce a broad range of documents related to a Chipotle restaurant in Simi Valley, California, that experienced an isolated norovirus incident during August 2015. On January 28, 2016, the Company was served with an additional subpoena broadening the investigation and requiring the production of documents and information related to company-wide food safety matters dating back to January 1, 2013. The Company has been informed that this subpoena supersedes the subpoena served

in December 2015, which has been withdrawn. The Company intends to continue to fully cooperate in the investigation. It is not possible at this time to determine whether the Company will incur, or to reasonably estimate the amount of, any fines or penalties in connection with the investigation pursuant to which the subpoena was issued.

Shareholder Class Action

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

Shareholder Derivative Actions

On March 21, 2016, Jessica Oldfather filed a shareholder derivative action in the Court of Chancery of the State of Delaware alleging that the Company's Board of Directors and officers breached their fiduciary duties in connection with allegedly excessive compensation awarded from 2011 to 2015 under the Company's stock incentive plan. On April 6, 2016, Uri Skorski filed a shareholder derivative action in Colorado state court in Denver, Colorado, making largely the same allegations as the Oldfather complaint and also alleging that the Company's Board of Directors and officers breached their fiduciary duties in connection with the Company's alleged failure to disclose material information about the Company's food safety policies and procedures. On April 14, 2016, Mark Arnold and Zachary Arata filed a shareholder derivative action in

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Colorado state court in Denver, Colorado, making largely the same allegations as the Skorski complaint. On August 8, 2016, Sean Gubricky filed a shareholder derivative action the U.S. District Court for the District of Colorado, alleging that the Company's Board of Directors and certain officers failed to institute proper food safety controls and policies, issued materially false and misleading statements in violation of federal securities laws, and otherwise breached their fiduciary duties to the Company. On September 1, 2016, Ross Weintraub filed a shareholder derivative action in Colorado state court in Denver, Colorado, making largely the same allegations as the Gubricky complaint. Each of these actions purports to state a claim for damages on behalf of the Company, and is based on statements in the Company's SEC filings and related public disclosures, as well as media reports and Company records. The Company intends to defend these cases vigorously, but it is not possible at this time to reasonably estimate the outcome of or any potential liability from these cases.

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

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

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

Miscellaneous

The Company is involved in various other claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of these actions will have a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources. However, a significant increase in the number of these claims, or one or more successful claims under which the Company incurs greater liabilities than the Company currently anticipates, could materially and adversely affect the Company's business, financial condition, results of operations and cash flows.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report, including statements of expected changes in comparable restaurant sales and restaurant operating costs, statements regarding customer rewards programs, projections of our number of new restaurant openings, and estimates of cost savings in 2017, as well as discussion of possible stock repurchases and estimates of our effective tax rates, are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We use words such as “anticipate”, “believe”, “could”, “should”, “estimate”, “expect”, “intend”, “may”, “project”, “target”, and similar terms and phrases, including references to assumptions, to identify forward-looking statements. These forward-looking statements are based on information available to us as of the date any such statements are made, and we assume no obligation to update these forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include, but are not limited to, the risk factors described in our annual report on Form 10-K for the year ended December 31, 2015, as updated in Part II, Item 1.A of this report.

Overview

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

2016 Highlights

Operating Results. Our sales and profitability have been adversely impacted throughout 2016 as a result of a number of food-borne illness incidents associated with Chipotle restaurants in as many as 15 states, which were widely reported during the fourth quarter of 2015 and the first quarter of 2016. Comparable restaurant sales declined 21.9% in the three months ended September 30, 2016, and 24.9% in the nine months ended September 30, 2016, including a reduction of 0.8% and 0.3%, respectively, in comparable restaurant sales resulting from the deferral of \$11.5 million of revenue to account for outstanding rewards under our Chiptopia Summer Rewards program described further below. The comparable restaurant sales decline in the third quarter was an improvement from the declines of 29.7% in the first quarter and 23.6% in the second quarter. We attribute some of the improvement in comparable restaurant sales for the third quarter to Chiptopia. Comparable restaurant sales decreases were driven primarily by a 15.2% decrease in the number of transactions for the third quarter and a 17.9% decrease in the number of transactions for the first nine months of 2016, and to a lesser extent by decreases in average check. During the fourth quarter of 2016, we expect comparable restaurant sales declines to be in the low single-digits. Comparable restaurant sales represent the change in period-over-period sales for restaurants beginning in their 13th full calendar month of operation. Average restaurant sales were \$1.914 million as of September 30, 2016. We define average restaurant sales as the average trailing 12-month sales for restaurants in operation for at least 12 full calendar months.

During the first nine months of 2016, our restaurant operating costs (food, beverage and packaging; labor; occupancy; and other operating costs) as a percent of revenue increased 15.4% as compared to the first nine months of 2015. About 9.0% of the increase was attributable to sales deleveraging, while incremental marketing and promotional spend aimed at regaining our customers, combined with additional labor to support the sales promotions, contributed about 3.5% to the increase. We expect restaurant level operating costs as a percentage of revenue in the fourth quarter of 2016 will remain consistent with the third quarter of 2016.

Chiptopia Summer Rewards. We offered our limited-time Chiptopia rewards program during the third quarter of 2016 in an effort to increase sales and frequency among our most loyal customers by offering rewards that incentivized customers to visit our restaurants more often during each month of the program. We estimate that the increase to revenue as a percent of sales from Chiptopia was in the low single-digits, and that the program contributed positively to our comparable restaurant transactions for the three months ended September 30, 2016. Chiptopia expired at the end of the third quarter, and we may not retain customers we attracted with Chiptopia.

Restaurant Development. As of September 30, 2016, we had 2,178 restaurants in operation, including 2,129 Chipotle restaurants throughout the United States, with an additional 15 Chipotle restaurants in Canada, six in England, five in France, and one in Germany. Our restaurants also included 15 ShopHouse Southeast Asian Kitchen restaurants, serving fast-casual, Asian inspired cuisine, and seven Pizzeria Locale restaurants, a fast-casual pizza concept in which we are an investor through a consolidated entity. We opened 171 restaurants during the nine months ended September 30, 2016, and 55 during the third quarter of 2016. We expect new restaurant openings at or above the high end of the previously-disclosed range of 220 to 235 for the full year 2016. During the third quarter of 2016, we recognized a non-cash impairment charge of \$14.5 million related to our ShopHouse restaurants. The decision to impair the assets was based on an analysis of each restaurant's

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past and present operating performance, including a significant change from comparable restaurant sales increases to decreases, and projected future cash flows expected to be generated by the restaurant assets.

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

Stock Repurchases. During the nine months ended September 30, 2016, we repurchased over 1.6 million shares of common stock under programs authorized by our Board of Directors, for a total cost of \$747.2 million. As of September 30, 2016, \$69.2 million was available to repurchase shares under previously-announced repurchase authorizations. On October 25, 2016, we announced that our Board of Directors authorized the expenditure of up to an additional \$100.0 million to repurchase shares of our common stock. Our stock repurchases are effectuated pursuant to an agreement with a broker under SEC rule 10b5-1(c), authorizing the broker to make open market purchases of common stock from time to time, subject to market conditions. Repurchase agreements and the Board's authorization of the repurchases may generally be modified, suspended, or discontinued at any time.

2017 Outlook

We are targeting comparable restaurant sales increases in the high single-digits for the full year 2017 as comparisons become easier, and based on our plans to attract more customers with a variety of marketing activities as well as through improvements to our digital ordering platforms. We also plan to reduce restaurant level operating costs and general and administrative costs as a percent of revenue in 2017, including through disciplined staffing of support and field leadership positions, better business terms with suppliers, operational efficiencies, and lower promotional spend for the full year. Additionally, we expect to realize cost efficiencies in 2017 by simplifying our restaurant design, resulting in lower costs to build many of our restaurants. We intend to open between 195 and 210 restaurants for the full year 2017.

We expect the 2017 full year effective tax rate to be 39.5%. However, as discussed in Note 2, "Accounting Policies," included in Item 1. "Financial Statements and Supplementary Data" the adoption of ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718)" will subject our tax rate to volatility from the effect of stock award exercise and vesting activities.

Restaurant Activity

The following table details restaurant unit data for the periods indicated:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|------------------------------------|---|-------|--|-------|
| Beginning of period | 2,124 | 1,878 | 2,010 | 1,783 |
| Openings | 55 | 53 | 171 | 150 |
| Relocations/closures | (1) | - | (3) | (2) |
| Total restaurants at end of period | 2,178 | 1,931 | 2,178 | 1,931 |
| Results of Operations | | | | |

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

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Revenue

| | Three months ended | | | Nine months ended | | |
|---|-----------------------|------------|---------------------------|-----------------------|------------|---------------------------|
| | September 30, 2016 | 2015 | % increase/ (decrease) | September 30, 2016 | 2015 | % increase/ (decrease) |
| | (dollars in millions) | | | (dollars in millions) | | |
| Revenue | \$ 1,037.0 | \$ 1,216.9 | (14.8%) | \$ 2,869.8 | \$ 3,503.7 | (18.1%) |
| Average restaurant sales | \$ 1.914 | \$ 2.532 | (24.4%) | \$ 1.914 | \$ 2.532 | (24.4%) |
| Comparable restaurant sales | (21.9%) | 2.6% | | (24.9%) | 5.5% | |
| Number of restaurants as of the end of the period | 2,178 | 1,931 | 12.8% | 2,178 | 1,931 | 12.8% |
| Number of restaurants opened in the period, net of relocations/closures | 54 | 53 | | 168 | 148 | |

The decreases in revenue for the three and nine months ended September 30, 2016 were attributable to declines in comparable restaurant sales, partially offset by new restaurant openings. For the three and nine months ended September 30, 2016, comparable restaurant sales decreased \$256.5 million and \$861.1 million, respectively, while revenue from restaurants not yet in the comparable restaurant base contributed \$87.9 million and \$238.9 million, of which \$49.0 million and \$85.9 million were attributable to restaurants opened in 2016. The comparable restaurant sales decreases were attributable to a decline in the number of transactions, and to a lesser extent, a decrease in the average check. Comparable restaurant sales declines were also attributable to a lesser extent to reductions of 0.8% in the three months ended September 30, 2016 and 0.3% in the nine months ended September 30, 2016 resulting from the deferral of \$11.5 million of revenue to account for outstanding rewards under our Chiptopia program.

Food, Beverage and Packaging Costs

| | Three months ended | | | Nine months ended | | |
|------------------------------|-----------------------|----------|---------------|-----------------------|------------|---------------|
| | September 30, 2016 | 2015 | % decrease | September 30, 2016 | 2015 | % decrease |
| | (dollars in millions) | | | (dollars in millions) | | |
| Food, beverage and packaging | \$ 363.9 | \$ 401.1 | (9.3%) | \$ 1,000.0 | \$ 1,166.8 | (14.3%) |
| As a percentage of revenue | 35.1% | 33.0% | | 34.8% | 33.3% | |

Food, beverage and packaging costs increased as a percentage of revenue for the three months ended September 30, 2016, primarily due to increased waste and higher avocado prices, partially offset by relief in beef prices. Food, beverage and packaging costs increased as a percentage of revenue for the nine months ended September 30, 2016, primarily due to increased waste costs and costs related to new food safety procedures, partially offset by the benefit

of menu price increases implemented in select restaurants in the second half of 2015. We believe that further refinement in our food safety procedures will moderate some of the additional expense we experienced in the first half of 2016. In dollar terms, food, beverage and packaging costs decreased for the three and nine months ended September 30, 2016 due to lower sales.

Labor Costs

| | Three months ended | | | Nine months ended | | |
|----------------------------|-----------------------|----------|---------------|-----------------------|----------|---------------|
| | September 30, 2016 | 2015 | % increase | September 30, 2016 | 2015 | % increase |
| | (dollars in millions) | | | (dollars in millions) | | |
| Labor costs | \$ 286.1 | \$ 270.1 | 5.9% | \$ 820.8 | \$ 785.1 | 4.5% |
| As a percentage of revenue | 27.6% | 22.2% | | 28.6% | 22.4% | |

Labor costs as a percentage of revenue increased in the three months ended September 30, 2016, primarily due to lower average restaurant sales and wage inflation. Labor costs as a percentage of revenue increased in the nine months ended September 30, 2016, primarily due to lower average restaurant sales and wage inflation, partially offset by fewer managers and crew in our restaurants. Although we incurred additional costs in the first nine months of 2016 to staff our restaurants for sales promotions, including Chiptopia, those incremental costs were offset by scheduling efficiencies as compared to the first nine months of 2015 as a result of reporting challenges from a system change in early 2015. In dollar terms, labor costs increased for the three and nine months ended September 30, 2016, due to staffing needs for new restaurants.

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Occupancy Costs

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|----------------------------|----------------------------------|---------|------------|---------------------------------|----------|------------|
| | 2016 | 2015 | % increase | 2016 | 2015 | % increase |
| | (dollars in millions) | | | (dollars in millions) | | |
| Occupancy costs | \$ 74.2 | \$ 66.4 | 11.8% | \$ 217.1 | \$ 194.3 | 11.8% |
| As a percentage of revenue | 7.2% | 5.5% | | 7.6% | 5.5% | |

Occupancy costs as a percentage of revenue increased for the three and nine months ended September 30, 2016, primarily due to lower average restaurant sales on a partially fixed-cost base. Occupancy costs increased in dollar terms for the three and nine months ended September 30, 2016, due to costs associated with new restaurants.

Other Operating Costs

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|----------------------------|----------------------------------|----------|------------|---------------------------------|----------|------------|
| | 2016 | 2015 | % increase | 2016 | 2015 | % increase |
| | (dollars in millions) | | | (dollars in millions) | | |
| Other operating costs | \$ 166.0 | \$ 134.9 | 23.1% | \$ 473.4 | \$ 378.8 | 25.0% |
| As a percentage of revenue | 16.0% | 11.1% | | 16.5% | 10.8% | |

Other operating costs include, among other items, marketing and promotional costs, bank and credit card fees, and restaurant utilities and maintenance costs. Other operating costs as a percentage of revenue increased for the three and nine months ended September 30, 2016, due primarily to an increase in marketing and promotional spend and sales deleveraging. We increased our marketing and promotional spend in an effort to regain customers, which contributed \$20.7 million and \$75.9 million to the increase in other operating costs for the three and nine months ended September 30, 2016, respectively.

General and Administrative Expenses

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|------------------------------------|----------------------------------|---------|------------|---------------------------------|----------|------------|
| | 2016 | 2015 | % increase | 2016 | 2015 | % increase |
| | (dollars in millions) | | | (dollars in millions) | | |
| General and administrative expense | \$ 78.4 | \$ 70.1 | 11.9% | \$ 211.2 | \$ 203.3 | 3.9% |
| As a percentage of revenue | 7.6% | 5.8% | | 7.4% | 5.8% | |

For the three and nine months ended September 30, 2016, general and administrative expenses were higher in dollar terms due to expenses associated with our biennial All Managers' Conference in September 2016 and higher legal expense, partially offset by lower non-cash stock based compensation expense.

Depreciation and Amortization

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|-------------------------------|--|---------|---------------|---------------------------------------|---------|---------------|
| | 2016 | 2015 | % increase | 2016 | 2015 | % increase |
| | (dollars in millions) | | | (dollars in millions) | | |
| Depreciation and amortization | \$ 37.4 | \$ 33.1 | 12.9% | \$ 108.3 | \$ 96.2 | 12.5% |
| As a percentage of revenue | 3.6% | 2.7% | | 3.8% | 2.7% | |

For the three and nine months ended September 30, 2016, depreciation and amortization increased as a percentage of revenue due to lower average restaurant sales on a partially fixed-cost base. The increase in dollar terms was due primarily to depreciation and amortization costs associated with new restaurants.

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Loss on Disposal and Impairment of Assets

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|----------------------------------|--------|------------|---------------------------------|--------|------------|
| | 2016 | 2015 | % increase | 2016 | 2015 | % increase |
| | (dollars in millions) | | | (dollars in millions) | | |
| Loss on disposal and impairment of assets | \$ 16.6 | \$ 2.2 | 671.7% | \$ 22.0 | \$ 7.7 | 184.6% |
| As a percentage of revenue | 1.6% | 0.2% | | 0.8% | 0.2% | |

For the three and nine months ended September 30, 2016, loss on disposal and impairment of assets increased in dollar terms primarily due to a non-cash impairment charge to write-down substantially all of the value of the long-lived assets of our ShopHouse restaurants.

Provision for Income Taxes

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|----------------------------|----------------------------------|---------|------------|---------------------------------|----------|-----------------------|
| | 2016 | 2015 | % decrease | 2016 | 2015 | % increase (decrease) |
| | (dollars in millions) | | | (dollars in millions) | | |
| Provision for income taxes | \$ 2.6 | \$ 91.4 | (97.2%) | \$ 0.6 | \$ 256.7 | n/m* |
| Effective tax rate | 25.0% | 38.7% | | 8.4% | 38.6% | |

*Not meaningful

For the full year 2016, we estimate our annual effective tax rate will be 38.2%, which is consistent with 2015. Additional federal credits and a non-recurring tax benefit from previously-earned state tax credits were offset by a higher estimated state tax rate. The effective tax rates for the three and nine months ended September 30, 2016 were lower due to the additional state and federal credits being recognized as discrete items in the first and third quarters of 2016, and the lower pre-tax income in those periods.

Seasonality

Seasonal factors cause our profitability to fluctuate from quarter to quarter. Historically, our average daily restaurant sales have been lower, and our 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, fluctuations in food or packaging costs or the timing of menu price increases. The number of trading days can also affect our quarterly results. Overall, on an annual basis, changes in trading days do not have a significant impact on our results. Our quarterly results are also affected by other factors such as the amount and timing of non-cash stock-based compensation expense, the number of new restaurants opened in a quarter, timing of marketing and promotional spend, and planned events—such as our biennial All Managers' Conference. Accordingly, results for a particular quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

Liquidity and Capital Resources

Our primary liquidity and capital requirements are for new restaurant construction, working capital and general corporate needs. We have a cash and short term investment balance of \$359.1 million that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business (primarily through opening restaurants), to repurchase additional shares of our common stock subject to market conditions (including up to \$69.2 million in repurchases under programs announced as of September 30, 2016), to maintain our existing restaurants, and for general corporate purposes. We also have a long term investment balance of \$250.7 million, which consists of U.S. treasury notes with maturities up to approximately 18 months. We believe that cash from operations, together with our cash and investment balances, will be enough to meet ongoing capital expenditures, working capital requirements and other cash needs for the foreseeable future.

We haven't required significant working capital because customers pay using cash or payment 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 sometime after the receipt of those items, generally within ten days, thereby reducing the need for incremental working capital to support growth.

Off-Balance Sheet Arrangements

As of September 30, 2016, we had no off-balance sheet arrangements or obligations.

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Critical Accounting Estimates

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 conditions. We had no significant changes in our critical accounting estimates since our last annual report. Our critical accounting estimates are identified and described in our annual report on Form 10-K for the year ended December 31, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risks

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

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 September 30, 2016, we had about \$497.3 million in investments and interest-bearing cash accounts, including insurance related restricted trust accounts classified in other assets, and \$108.0 million in accounts with an earnings credit we classify as interest income, which combined bear a weighted-average interest rate of 0.67%.

Foreign Currency Exchange Risk

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

ITEM 4. CONTROLS AND PROCEDURES

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

As of September 30, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Co-Chief Executive Officers and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Co-Chief Executive Officers and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

PART II

ITEM 1.LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 8 “Commitments and Contingencies” in our notes to condensed consolidated financial statements included in Item 1. “Financial Statements and Supplementary Data.”

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ITEM 1A.RISK FACTORS

There have been no material changes in our risk factors since our annual report on Form 10-K for the year ended December 31, 2015, except as set forth below.

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

We have developed a marketing and advertising strategy that we believe is unique in the restaurant industry. We have not generally advertised on television, and historically have engaged in very limited price or value-based promotions. Instead we have invested primarily in marketing and advertising strategies that we believe will increase customers' connection with our brand. If these marketing and advertising investments do not drive increased restaurant sales, the expense associated with these programs will adversely impact our financial results, and we may not generate the levels of comparable restaurant sales we expect. We may be particularly dependent on the success of our marketing programs in 2016, when we have invested significantly in marketing and promotional spending, including significant use of free and discounted food promotions, in an effort to attract customers back to our restaurants and reverse negative sales trends. Beginning July 1, 2016, we implemented a new customer frequency program known as Chiptopia, which resulted in increases in free food giveaways during the third quarter, and will result in additional free food giveaways. Chiptopia also resulted in a deferral of revenue totaling \$11.5 million in connection with outstanding rewards, with the deferred revenue to be recognized at the sooner of reward redemption or expiration, not later than the first quarter of 2017. Chiptopia expired at the end of the third quarter, and we may not retain customers we attracted with Chiptopia and other free and discounted food promotions.

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

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

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

Our Chairman and co-Chief Executive Officer Steve Ells founded our company, has been the principal architect of our business strategy, and has led our growth from a single restaurant in 1993 to over 2,100 restaurants today. Monty Moran, our co-Chief Executive Officer, and Jack Hartung, our Chief Financial Officer, have also served with us since early in our company's history and much of our growth has occurred under their direction as well. Mark Crumpacker, our Chief Marketing and Development Officer, has been instrumental in formulating strategies to help us regain customers following the sales declines we have experienced throughout 2016. We believe our executive officers, each of whom is an at-will employee without any employment contract, have created an employee culture, food culture and business strategy at our company that has been critical to our success and that may be difficult to replicate under another management team. We also believe that it may be difficult to locate and retain executive officers who are able

to grasp and implement our unique strategic vision. If our company culture were to deteriorate following a change in leadership, or if a new management team were to be unsuccessful in executing our strategy or were to change important elements of our current strategy, our growth prospects or future operating results may be adversely impacted.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

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

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2) |
|-----------|-------------------------------------|---------------------------------------|---|--|
| July | 57,855 | \$ 412.02 | 57,855 | \$ 115,667,091 |
| | Purchased 7/1 through 7/31 | | | |
| August | 67,408 | \$ 402.24 | 67,408 | \$ 88,552,862 |
| | Purchased 8/1 through 8/31 | | | |
| September | 46,581 | \$ 415.32 | 46,581 | \$ 69,206,828 |
| | Purchased 9/1 through 9/30 | | | |
| Total | 171,844 | \$ 409.08 | 171,844 | \$ 69,206,828 |

(1) Shares were repurchased pursuant to repurchase programs announced on February 2, 2016, and May 11, 2016.

(2) This column does not include an additional \$100 million in authorized repurchases announced on October 25, 2016. Each repurchase program has no expiration date. Authorization of repurchase programs may be modified, suspended or discontinued at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On May 31, 2016, Monty Moran, our Co-Chief Executive Officer, adopted a sales plan designed to comply with Rule 10b5-1 under the Exchange Act. The sales plan, which Mr. Moran adopted in compliance with restrictions imposed by our Insider Trading Policy, is intended to facilitate the diversification of Mr. Moran's personal assets. The plan provides for the exercise of vested stock appreciation rights held by Mr. Moran and sales of the underlying shares of common stock, subject to specified minimum market prices. Total exercises and sales on Mr. Moran's behalf under the plan are limited to an aggregate of 100,000 shares. In the event all of the stock appreciation rights subject to the sales

plan are exercised, Mr. Moran would continue to beneficially own 392,255 shares of our common stock, which does not include 87,500 shares underlying unvested stock appreciation rights and up to 157,774 shares of common stock issuable in connection with outstanding performance share awards, which are subject to our achievement of financial or stock price performance targets.

ITEM 6.EXHIBITS

The exhibits listed in the exhibit index following the signature page are filed or furnished as part of this report.

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SIGNATURES

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

CHIPOTLE MEXICAN GRILL, INC.

By: /S/ JOHN R. HARTUNG

Name: John R. Hartung
Title: Chief Financial Officer (principal financial officer and duly authorized signatory for the registrant)

Date: October 25, 2016

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EXHIBIT INDEX

| Exhibit Number | Exhibit Description | Description of Exhibit Incorporated Herein by Reference | | | | |
|-------------------|--|--|-----------|-------------------|-------------------|-------------------|
| | | Form | File No. | Filing Date | Exhibit Number | Filed Herewith |
| 3.1 | Amended and Restated Certificate of Incorporation | - | - | - | - | X |
| 3.2 | Amended and Restated Bylaws of Chipotle Mexican Grill, Inc. | 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. 2011 Stock Incentive Plan | - | - | - | - | X |
| 31.1 | Certification of Chairman and Co-Chief Executive Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | - | - | - | - | X |
| 31.2 | Certification of Co-Chief Executive Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | - | - | - | - | X |
| 31.3 | Certification of Chief Financial Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | - | - | - | - | X |
| 32.1 | Certification of Co-Chief Executive Officers and Chief Financial Officer of Chipotle Mexican Grill, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | - | - | - | - | X |
| 101 | The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheet as of December 31, 2015 and December 31, 2014, (ii) Consolidated Statement of Income and Comprehensive Income for the years ended December | - | - | - | - | X |

31, 2015, 2014 and 2013, (iii) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2015, 2014 and 2013, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013; and (v) Notes to the Consolidated Financial Statements