CHIPOTLE MEXICAN GRILL INC
Form 10-K
February 08, 2019
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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 (State or other jurisdiction of incorporation or organization)	84-1219301 (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.

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PART I

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 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;

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- 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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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

We depend significantly on 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.

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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

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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.

PART II

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.

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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.

*$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

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ITEM 6. SELECTED FINANCIAL DATA

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