UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 1-32731

CHIPOTLE MEXICAN GRILL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1219301**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
1401 Wynkoop Street, Suite 500 Denver, CO	**80202**

(Address of Principal Executive Offices)	**(Zip Code)**

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

1543 Wazee Street, Suite 200 Denver, CO 80202

(Former address if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 of 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. x Yes ¨ No

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company

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

As of October 20, 2008 there were 14,560,988 shares of the registrant s Class A common stock, par value of $0.01 per share, and 18,424,690 shares of the registrant s Class B common stock, par value of $0.01 per share, outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Chipotle Mexican Grill, Inc.

Consolidated Balance Sheet

(in thousands, except per share data)

	September 30, 2008 (unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 212,183	$ 151,176
Accounts receivable, net of allowance for doubtful accounts of $582 and $237 as of September 30, 2008 and December 31, 2007, respectively	4,582	5,373
Inventory	5,485	4,332
Current deferred tax asset	2,450	2,431
Prepaid expenses	12,081	8,997
Income tax receivable	3,195	9,535
Available-for-sale securities		20,000
Total current assets	239,976	201,844
Leasehold improvements, property and equipment, net	566,033	494,930
Other assets	3,971	3,402
Goodwill	21,939	21,939
Total assets	$ 831,919	$ 722,115
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 29,249	$ 19,880
Accrued payroll and benefits	26,740	26,210
Accrued liabilities	24,927	27,135
Current portion of deemed landlord financing	81	76
Total current liabilities	80,997	73,301
Deferred rent	80,121	63,192
Deemed landlord financing	3,899	3,960
Deferred income tax liability	29,720	16,483
Other liabilities	4,480	3,069
Total liabilities	199,217	160,005
Shareholders equity:		
Preferred stock, $0.01 par value, 600,000 shares authorized, no shares outstanding as of September 30, 2008 and December 31, 2007		
Class A common stock, $0.01 par value, 200,000 shares authorized, and 14,441 and 14,431 shares outstanding as of September 30, 2008 and December 31, 2007, respectively	144	144
	184	184

Class B common stock, $0.01 par value, 30,000 shares authorized, 18,425 and 18,374 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital	498,680	489,296
Accumulated other comprehensive loss	(21)	
Retained earnings	133,715	72,486
Total shareholders equity	632,702	562,110
Total liabilities and shareholders equity	$ 831,919	$ 722,115

See accompanying notes to consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Consolidated Statement of Income

(unaudited)

(in thousands, except per share data)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue:				
Restaurant sales	$ 340,543	$ 286,431	$ 986,624	$ 796,137
Franchise royalties and fees				735
Total revenue	340,543	286,431	986,624	796,872
Restaurant operating costs:				
Food, beverage and packaging	112,412	92,075	321,003	254,209
Labor	89,534	75,395	259,222	211,965
Occupancy	24,483	19,745	69,720	55,355
Other operating costs	41,379	33,240	122,649	96,663
General and administrative expenses	22,645	19,279	64,889	54,397
Depreciation and amortization	13,769	11,167	38,646	31,907
Pre-opening costs	2,884	2,350	9,118	6,730
Loss on disposal of assets	2,379	1,784	5,212	4,919
	309,485	255,035	890,459	716,145
Income from operations	31,058	31,396	96,165	80,727
Interest and other income	931	1,597	3,199	4,617
Interest and other expense	(78)	(74)	(227)	(223)
Income before income taxes	31,911	32,919	99,137	85,121
Provision for income taxes	(12,434)	(12,315)	(37,908)	(32,096)
Net income	$ 19,477	$ 20,604	$ 61,229	$ 53,025
Earnings per common share:				
Basic	$ 0.59	$ 0.63	$ 1.86	$ 1.63
Diluted	$ 0.59	$ 0.62	$ 1.84	$ 1.60
Weighted average common shares outstanding:				
Basic	32,862	32,706	32,842	32,622
Diluted	33,170	33,171	33,261	33,049

See accompanying notes to consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Consolidated Statement of Cash Flows

(unaudited)

(in thousands)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Operating activities		
Net income	$ 61,229	$ 53,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,646	31,907
Deferred income tax provision/(benefit)	13,218	(8,882)
Loss on disposal of assets	5,212	4,919
Bad debt allowance	404	
Stock-based compensation	8,540	6,137
Other	(54)	47
Changes in operating assets and liabilities:		
Accounts receivable	387	(1,004)
Inventory	(1,153)	(843)
Prepaid expenses	(3,084)	(1,521)
Other assets	(569)	(592)
Accounts payable	4,884	3,414
Accrued liabilities	(1,678)	5,177
Income tax receivable/payable	6,340	420
Deferred rent	16,929	12,413
Other long term liabilities	1,411	956
Net cash provided by operating activities	150,662	105,573
Investing activities		
Purchases of leasehold improvements, property and equipment, net	(110,010)	(98,186)
Maturity of available-for-sale securities	20,000	
Franchise acquisitions		(5,668)
Net cash used in investing activities	(90,010)	(103,854)
Financing activities		
Proceeds from option exercises	206	2,280
Excess tax benefit on stock-based compensation	205	3,669
Payments on deemed landlord financing	(56)	(53)
Proceeds from McDonald s tax sharing agreement		6,400
Net cash provided by financing activities	355	12,296
Net change in cash and cash equivalents	61,007	14,015
Cash and cash equivalents at beginning of period	151,176	153,642
Cash and cash equivalents at end of period	$ 212,183	$ 167,657
Supplemental disclosures of cash flow information		

(Increase)/decrease in purchases of leasehold improvements, property and equipment accrued in accounts payable	$	(4,485)	$	1,977

See accompanying notes to consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Notes to Consolidated Financial Statements

(unaudited)

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

1. Basis of Presentation

Chipotle Mexican Grill, Inc. (the Company), a Delaware corporation, develops and operates fast-casual, fresh Mexican food restaurants with a menu of burritos, tacos, burrito bowls and salads in 33 states throughout the United States, in the District of Columbia, and in Toronto, Canada. As of September 30, 2008 the Company operated 798 restaurants. The Company manages its operations based on five regions and has aggregated its operations to one reportable segment.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by U.S. generally accepted accounting principles for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2007.

2. Adoption of New Accounting Principle

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements,* (FAS 157). FAS 157 defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosure about fair value measurements. FAS 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. The adoption of FAS 157 did not have an impact on the Company s consolidated financial statements.

3. Comprehensive Income

The following table presents comprehensive income for the three and nine months ended September 30, 2008 and 2007.

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	$ 19,477	$ 20,604	$ 61,229	$ 53,025
Foreign currency translation adjustments	(21)		(21)	
Other comprehensive income	$ 19,456	$ 20,604	$ 61,208	$ 53,025

4. Stock-based Compensation

In February 2008, the Company granted stock appreciation rights (SARs) on 102 shares of its class A common stock to eligible employees. The grant date fair value of the SARs was $36.76 per share with an exercise price of $102.65 per share based on the closing price of class A common stock on the date of grant. The SARs, which are payable in stock only, vest on the third anniversary of the grant date and expire on the seventh anniversary.

Also in February 2008, the Company made grants to executive officers, subject to shareholder approval, of 106 shares of class A common stock subject to performance conditions and SARs on 229 shares of class A common stock. The grants were approved at the Company s annual meeting of shareholders on May 21, 2008. The performance share grant stock price on the date of approval was $87.36. The fair value of the SARs was $25.51 per share with an exercise price of $102.65 per share based on the closing price of class A common stock on the date of grant in February. The SARs, which are payable in stock only, vest on the third anniversary of the February grant date and expire on the seventh anniversary.

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In May 2008, the Company replaced 120 previously issued non-vested time-based stock awards with an equal number of shares of performance-contingent restricted stock. The modification did not result in the recognition of any additional stock-based compensation.

Compensation expense on options and SARs is generally recognized equally over the three year vesting period. Compensation expense on options and SARs related to employees eligible to retire and retain rights to the awards is recognized over six months which coincides with the notice period. Compensation expense on performance awards is generally recognized over the estimated performance goal attainment period. Stock-based compensation, including SARs, options and non-vested stock awards, was $3,903 and $9,006 ($2,412 and $5,566 net of tax) for the three and nine months ended September 30, 2008 respectively, and was $2,169 and $6,389 ($1,321 and $3,891 net of tax) for the three and nine months ended September 30, 2007 respectively. For the three and nine months ended September 30, 2008, $156 and $466 of stock-based compensation was recognized as capitalized development and is included in leasehold improvements, property and equipment in the consolidated balance sheet. During the nine months ended September 30, 2008, 10 options to purchase class A common shares were exercised, 38 options or SARs were forfeited, 3 restricted stock units were issued to non-employee directors, 3 shares of class A common stock were cancelled and 51 class B common shares vested.

5. Earnings Per Share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated using income available to common shareholders divided by diluted weighted-average shares of common stock outstanding during each period. Potentially dilutive securities include potential common shares related to stock options, SARs and non-vested stock awards when performance criteria has been satisfied.

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net income	$ 19,477	$ 20,604	$ 61,229	$ 53,025
Shares:				
Weighted average number of common shares outstanding	32,862	32,706	32,842	32,622
Dilutive stock options	305	376	368	360
Dilutive non-vested stock awards	3	89	51	67
Diluted weighted average number of common shares outstanding	33,170	33,171	33,261	33,049
Basic earnings per share	$ 0.59	$ 0.63	$ 1.86	$ 1.63
Diluted earnings per share	$ 0.59	$ 0.62	$ 1.84	$ 1.60

6. Commitments and Contingencies

A lawsuit has been filed against the Company in California alleging violations of state laws regarding employee record-keeping, meal and rest breaks, payment of overtime and related practices with respect to its employees. The case seeks damages, penalties and attorney s fees on behalf of a purported class of the Company s present and former employees. The Company is currently investigating these claims, and although it has various defenses it is not possible at this time to reasonably estimate the outcome of or any potential liability from this case.

In the normal course of business, the Company is subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of September 30, 2008. These matters could affect the operating results of any one quarter when resolved in future periods. Management does not believe that any monetary liability or financial impact to the Company as a result of these proceedings or claims will be material to the Company s annual consolidated financial statements. However, a significant increase in the number of these claims, or one or more successful claims resulting in greater liabilities than the Company currently anticipates, could materially and adversely affect the Company s business, financial condition, results of operation or cash flows.

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

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report, including our estimates of the number of restaurants we intend to open as well as projections regarding potential changes in comparable restaurant sales and in the amount of certain expected expenses for 2008 and beyond, and statements regarding our expected stock repurchases, are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We use words such as anticipate , believe , could , should , estimate , expect , intend , may , predict , project , target , and similar terms and phrases, including references to assumptions, to identify forward-looking statements. These forward-looking statements are based on information available to us as of the date any such statements are made, and we assume no obligation to update these forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include, but are not limited to, the risk factors described in our annual report on Form 10-K for the year ended December 31, 2007, as updated in Item 1A of Part II of this report.

Overview

Chipotle operates fresh Mexican food restaurants serving burritos, tacos, burrito bowls (a burrito without the tortilla) and salads. We began with a simple philosophy: demonstrate that food served fast doesn t have to be a traditional fast-food experience. Over the years, that vision has evolved. Today, our vision is to change the way people think about and eat fast food. We do this by avoiding a formulaic approach when creating our restaurant experience, looking to fine-dining restaurants for inspiration. We use high-quality raw ingredients, classic cooking methods and a distinctive interior design, and have friendly people to take care of each customer features that are more frequently found in the world of fine dining. Our approach is also guided by our belief in an idea we call Food With Integrity . Our objective is to find the highest quality ingredients we can ingredients that are grown or raised with respect for the environment, animals and people who grow or raise the food.

2008 Highlights

Restaurant Development. As of September 30, 2008, we had 798 restaurants in 33 states throughout the United States, the District of Columbia, and Toronto, Canada. New restaurants have contributed substantially to our restaurant sales growth. We opened 20 and 97 restaurants during the three and nine months ended September 30, 2008, respectively. We expect to open between 130 and 140 restaurants in 2008 and between 135 and 145 in 2009.

Sales Growth. In addition to growing our number of restaurants, we have experienced increases in our average restaurant sales from $1.708 million as of September 30, 2007 to $1.768 million as of September 30, 2008, driven primarily by comparable restaurant sales increases. Our comparable restaurant sales increases for the first nine months of 2008 were 6.6%. Comparable restaurant sales increases were due mainly to menu price increases and to an increase in the number of transactions processed at our registers. We expect comparable restaurant sales increases in the mid to low single digits for the full year. Our comparable restaurant sales increases decelerated in the third quarter, which we believe is due at least in part to the weakened economy. As a result, we expect comparable restaurant sales increases in the low single digits for the full year of 2009. We define average restaurant sales as the average trailing 12-month sales for company-operated restaurants in operation for at least 12 full calendar months. Comparable restaurant sales include company-operated restaurants only and represent the change in period-over-period sales for restaurants beginning in their 13th full month of operation.

Food Costs. The cost of many basic foods for humans and animals, including corn, wheat, rice and oil has increased over 2007 prices. This has resulted in upward pricing pressures on almost all of our raw ingredients including chicken, beef, tortillas and rice, and we expect that pressure to continue through 2008 and into 2009. In addition, freezes during 2007 in California and Chile put pricing pressure on avocados which has continued during 2008. We have also experienced a significant increase in cheese prices throughout 2008 as a result of the expiration of the pricing protocols under which we operated during 2007. We will also have a significant increase in the cost of rice, soy oil and sweet corn as a result of the renewal of those pricing protocols at the end of the third quarter of 2008. We expect to implement pricing plans during the fourth quarter of 2008 to help offset increased costs.

Labor. Although we have not been directly impacted by recent minimum wage increases, we experienced some upward pressure on our restaurant wages in the first nine months of 2008 and expect further pressure in the fourth quarter. Because we have now operated a full year with a national labor staffing model and self-insurance structures in place, we do not expect to see improvements in our labor expense as a percentage of revenue during the remainder of 2008.

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In addition to excelling in providing quality food and customer service, restaurant managers are expected to contribute substantially to the development of their crew. Our restaurant management structure is designed to facilitate the development of crew members into restaurant managers, and we emphasized the importance of hiring and developing great crew at an all managers conference we held in August.

We continue to focus on ensuring our employee practices are as exceptional as our food. During 2008, we have sought to ensure that we have an effective and efficient field support system for restaurant managers that supports our efforts to identify people with potential, develops crew into managers and ensures high operating standards of our restaurants. In an effort to achieve this we continue to develop the Restaurateur program, which is designed to encourage the restaurant manager position as a career opportunity for our top performing restaurant managers. We have been working to leverage our Restaurateurs leadership by giving select Restaurateurs responsibility for leading nearby restaurants with opportunities for improvement. We plan to expand this program in 2009 to give outstanding Restaurateurs responsibility for additional restaurants.

Food With Integrity. In addition to continuing to serve naturally raised pork in all our restaurants, we now serve naturally raised chicken in all of our restaurants and naturally raised beef in about 60%. We define naturally raised as coming from animals that are fed a pure vegetarian diet, never given antibiotics or hormones, and raised humanely in open pastures or deeply bedded pens. In 2008, 30% of all the beans we buy are organically grown, up from 25% in 2007. This summer we also purchased 25% of at least one produce item while in season for each of our restaurants from small and midsize local farmers.

Stock Repurchase. Our Board of Directors has approved the expenditure of up to $100 million to repurchase shares of our class B common stock. The shares may be repurchased from time to time in open market transactions, subject to market conditions. We intend to enter into an agreement with a broker under SEC rule 10b5-1, authorizing the broker to make purchases of class B common stock from time to time. The repurchase agreement and the Board s authorization of the repurchase program may be modified, suspended, or discontinued at any time.

Cash and Cash Equivalents. As of September 30, 2008, we had a cash and cash equivalent balance of $212.2 million. Given the recent financial turmoil, our cash and cash equivalents holdings consist of almost 80% U.S. Treasury funds held at a large prominent bank while the remainder are in highly-rated municipal commercial paper and overnight time deposits.

Restaurant Activity

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

	For the three months ended September 30		For the nine months ended September 30	
	2008	**2007**	**2008**	**2007**
Company-operated				
Beginning of period	778	640	704	573
Openings	20	28	97	88
Closures			(3)	(1)
Franchise acquisitions				8
End of period	798	668	798	668
Franchises				
Beginning of period				8
Franchise acquisitions				(8)
End of period				
Total restaurants at end of period	798	668	798	668

Results of Operations

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

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Restaurant Sales

	For the three months ended September 30 2008	2007	% increase	For the nine months ended September 30 2008	2007	% increase
			(dollars in thousands)			
Restaurant sales	$ 340,543	$ 286,431	18.9%	$ 986,624	$ 796,137	23.9%
Average restaurant sales	$ 1,768	$ 1,708	3.5%	$ 1,768	$ 1,708	3.5%
Comparable restaurant sales increases	3.1%	12.4%		6.6%	10.9%	
Number of company-operated restaurants as of the end of the period	798	668	19.5%	798	668	19.5%
Number of company-operated restaurants opened in the period	20	28		97	88	

The significant factors contributing to our increase in sales for the three and nine months ended September 30, 2008 were restaurant openings and comparable restaurant sales performance. Restaurant sales for the three and nine months ended September 30, 2008 for restaurants not in the comparable restaurant base contributed to $46.8 million and $137.2 million of the increase in sales, respectively, of which $29.1 million and $54.2 million was attributable to restaurants opened in 2008. Comparable restaurant sales increases contributed to $7.4 million of the increase in restaurant sales for the third quarter of 2008, and $53.5 million of the increase in restaurant sales for the first nine months of 2008. Comparable restaurant sales growth was due primarily to menu price increases in selected markets in conjunction with the introduction of naturally raised beef or chicken. For the first nine months of 2008 an increase in the number of transactions processed at our register also contributed to the increase in comparable restaurant sales.

Food, Beverage and Packaging Costs

	For the three months ended September 30 2008	2007	% increase	For the nine months ended September 30 2008	2007	% increase
			(dollars in thousands)			
Food, beverage and packaging	$ 112,412	$ 92,075	22.1%	$ 321,003	$ 254,209	26.3%
As a percentage of revenue	33.0%	32.1%		32.5%	31.9%	

Food, beverage and packaging costs increased as a percentage of revenue due to increased product costs, primarily cheese, chicken and avocados partially offset by menu price increases in selected markets in conjunction with the introduction of naturally-raised beef or chicken. We have seen significantly higher food costs for many of our raw ingredients and we expect that to continue through the rest of 2008 and into 2009.

Labor Costs

	For the three months ended September 30 2008	2007	% increase	For the nine months ended September 30 2008	2007	% increase
			(dollars in thousands)			
Labor costs	$ 89,534	$ 75,395	18.8%	$ 259,222	$ 211,965	22.3%
As a percentage of revenue	26.3%	26.3%		26.3%	26.6%	

Labor costs as a percentage of revenue remained consistent in the third quarter of 2008 due to menu price increases and lower insurance claims benefiting us offset by increased average wage rates and labor inefficiencies associated with the newer restaurant openings.

Labor costs decreased as a percentage of revenue in the first nine months of 2008 primarily due to menu price increases, lower insurance claims benefiting us and labor inefficiencies in early 2007 before the national labor staffing model was fully rolled out. This decrease was partially offset by increased average wage rates and labor inefficiencies associated with the newer restaurant openings.

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Occupancy Costs

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	increase	2008	2007	increase
			(dollars in thousands)			
Occupancy costs	$ 24,483	$ 19,745	24.0%	$ 69,720	$ 55,355	26.0%
As a percentage of revenue	7.2%	6.9%		7.1%	6.9%	

Occupancy costs increased as a percentage of revenue primarily due to higher rents for new locations, which includes our opening proportionately more restaurants in expensive urban areas in 2007 and 2008. This increase was partially offset by higher average restaurant sales on a partially fixed-cost base.

Other Operating Costs

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	increase	2008	2007	increase
			(dollars in thousands)			
Other operating costs	$ 41,379	$ 33,240	24.5%	$ 122,649	$ 96,663	26.9%
As a percentage of revenue	12.2%	11.6%		12.4%	12.1%	

In 2008, other operating costs as a percentage of revenue increased primarily due to increased utilities, repair and maintenance costs and credit card processing fees resulting from a higher percentage of our customers using credit cards. This increase was partially offset by lower marketing and promotional spend.

General and Administrative Expenses

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	increase	2008	2007	increase
			(dollars in thousands)			
General and administrative expense	$ 22,645	$ 19,279	17.5%	$ 64,889	$ 54,397	19.3%
As a percentage of revenue	6.6%	6.7%		6.6%	6.8%	

The increase in general and administrative expenses in 2008 primarily resulted from hiring more employees as we grew, the cost of the all manager conference held in the third quarter, an increase in stock-based compensation expense resulting from the stock-based compensation awards granted in February 2008, and the impact during the second quarter of 2007 from the reversal of the $1.2 million credit card contingency reserve. The increase was partially offset by lower performance related bonus accruals in 2008.

As a percentage of total revenue, general and administrative expenses decreased due to lower performance related bonus accruals and menu price increases. This decrease was partially offset by the costs of the all manager conference held in the third quarter and the impact during the second quarter of 2007 from the reversal of the $1.2 million credit card contingency reserve.

Depreciation and Amortization

	For the three months ended September 30 2008	2007	% increase	For the nine months ended September 30 2008	2007	% increase
	(dollars in thousands)					
Depreciation and amortization	$ 13,769	$ 11,167	23.3%	$ 38,646	$ 31,907	21.1%
As a percentage of revenue	4.0%	3.9%		3.9%	4.0%	

Depreciation and amortization increased primarily due to restaurants opened in 2008 and 2007.

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As a percentage of total revenue, depreciation and amortization has increased during the third quarter due to new store openings increasing the average per store depreciable base and decreased for the nine months ended September 30, 2008 as a result of higher average restaurant sales on a partially fixed-cost base partially offset by new store openings.

Pre-opening Costs

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	increase	2008	2007	increase
			(dollars in thousands)			
Pre-opening costs	$ 2,884	$ 2,350	22.7%	$ 9,118	$ 6,730	35.5%
As a percentage of revenue	0.8%	0.8%		0.9%	0.8%	
Restaurant openings	20	28		97	88	

The increase in pre-opening costs is a result of an increase in rent expense recognized during the construction period due to an increase in the number of restaurants under construction and higher average rents as we open proportionately more restaurants in expensive urban areas. Pre-opening costs includes non-cash rent expense of $1.7 million and $1.3 million for the three months ended September 30, 2008 and 2007, respectively, and $4.8 million and $3.2 million for the nine months ended September 30, 2008 and 2007.

Loss on Disposal of Assets

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	increase	2008	2007	increase
			(dollars in thousands)			
Loss on disposal of assets	$ 2,379	$ 1,784	33.4%	$ 5,212	$ 4,919	6.0%
As a percentage of revenue	0.7%	0.6%		0.5%	0.6%	

The increase in loss on disposal of assets was due to updating restaurants in certain markets during the third quarter of 2008, partially offset by the effect of increased costs in 2007 relating to the upgrade of restaurant security systems.

Interest Income

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	decrease	2008	2007	decrease
			(dollars in thousands)			
Interest income	$ 931	$ 1,597	(41.7)%	$ 3,199	$ 4,617	(30.7)%
As a percentage of revenue	0.3%	0.6%		0.3%	0.6%	

Interest income resulted primarily from investing our incremental cash and cash equivalents in short-term investments with maturities of three months or less. The decrease is due to a lower yield on our investments in the first nine months of 2008 compared to the same period in 2007, in small part from moving our investments into more secure, but lower yielding U.S. Treasury funds late in the third quarter of 2008.

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Provision for Income Taxes

	For the three months ended September 30		%	For the nine months ended September 30		%
	2008	2007	increase	2008	2007	increase
			(dollars in thousands)			
Provision for income taxes	$ 12,434	$ 12,315	1.0%	$ 37,908	$ 32,096	18.1%
As a percentage of revenue	3.7%	4.3%		3.8%	4.0%	
Effective tax rate	39.0%	37.4%		38.2%	37.7%	

The 2008 estimated annual effective tax rate increased compared to 2007 due to a reduction in the yield on tax-exempt securities as well as a reduction in the amount of tax-exempt investments due to the on-going market credit crisis, partially offset by a decrease in the estimated statutory state tax rate. In the third quarter we increased our estimate of the 2008 annual effective tax rate due to fewer expected investment holdings in tax-exempt securities for the second half of 2008.

Seasonality

Seasonal factors cause our profitability to fluctuate from quarter to quarter. Historically, our restaurant sales are lower in the first and fourth quarters due, in part, to the holiday season and because fewer people eat out during periods of inclement weather (the winter months) than during periods of mild or warm weather (the spring, summer and fall months). Other factors also have a seasonal effect on our results. For example, restaurants located near colleges and universities generally do more business during the academic year. The number of trading days can also affect our results. Overall, on an annual basis, changes in trading days do not have a significant impact on our results.

Our quarterly results are also affected by other factors such as the number of new restaurants opened in a quarter and unanticipated events such as a severe credit restrictions or volatile financial markets. New restaurants have lower margins following opening as a result of the expenses associated with opening new restaurants and their operating inefficiencies in the months immediately following opening. Accordingly, results for a particular quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

Liquidity and Capital Resources

Our primary liquidity and capital requirements are for new restaurant construction, working capital and general corporate needs. We have a cash, cash equivalent, and short-term investment balance of $212.2 million that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business (primarily through opening restaurants), to repurchase up to $100 million of our class B common stock subject to market conditions, and to continue to maintain our existing restaurants and for general corporate purposes. We believe that cash from operations, together with our cash balance, will be enough to meet ongoing capital expenditures, working capital requirements and other cash needs over at least the next 24 months.

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

Off-Balance Sheet Arrangements

As of September 30, 2008 and December 31, 2007, we had no off-balance sheet arrangements or obligations.

Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or conditions. We had no significant changes in our critical accounting estimates since our last annual report. Our critical accounting estimates are contained in our annual report on Form 10-K for the year ended December 31, 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Changing Interest Rates

We are exposed to interest rate risk through the investment of our cash, cash equivalents, and available-for-sale securities. Changes in interest rates affect the interest income we earn, and therefore impact our cash flows and results of operations. As of September 30, 2008, we had $210.0 million deposited in short-term investments bearing a weighted-average interest rate of 0.77% (approximately 0.85% tax equivalent).

Commodity Price Risks

We are also exposed to commodity price risks. Many of the ingredients we use to prepare our food, as well as our packaging materials, are commodities or ingredients that are affected by the price of other commodities, the strength of the U.S. dollar, foreign demand, weather, seasonality, production, availability and other factors outside our control. We work closely with our suppliers and use a mix of forward pricing protocols under which we agree with our supplier on fixed prices for deliveries at some time in the future, fixed pricing protocols under which we agree on a fixed price with our supplier for the duration of that protocol, and formula pricing protocols under which the prices we pay are based on a specified formula related to the prices of the goods, such as spot prices. A substantial portion of the dollar value of goods purchased by us are effectively at spot prices. Though we generally do not have long-term supply contracts or guaranteed purchase amounts, our pricing protocols with suppliers can remain in effect for periods ranging from one month to a year, depending on the outlook for prices of the particular ingredient. We ve tried to increase, where necessary, the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility, and we follow industry news, trade issues, exchange rates, foreign demand, weather, crises and other world events that may affect supply prices. Increases in ingredient prices have, and could continue to, adversely affect our results if we choose not to increase menu prices at the same pace for competitive or other reasons.

ITEM 4. CONTROLS AND PROCEDURES

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

As of September 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes during the three months ended September 30, 2008 in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

A lawsuit has been filed against us in California alleging violations of state laws regarding employee record-keeping, meal and rest breaks, payment of overtime and related practices with respect to our employees. The case seeks damages, penalties and attorney s fees on behalf of a purported class of our present and former employees. We are currently investigating these claims, and although we have various defenses, it is not possible at this time to reasonably estimate the outcome of or any potential liability from this case.

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We are involved in various claims and legal actions that arise in the ordinary course of business. We do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity or capital resources. However, a significant increase in the number of these claims, or one or more successful claims under which we incur greater liabilities than we currently anticipate could materially and adversely affect our business, financial condition, results of operation and cash flows.

ITEM 1A. RISK FACTORS

The following updates to our risk factors should be read in conjunction with the risk factors included in our annual report on Form 10-K for the year ended December 31, 2007.

New restaurants, once opened, may not be profitable, and the increases in average restaurant sales and comparable restaurant sales that we have experienced in the past may not be indicative of future results.

Historically, many of our new restaurants have opened with an initial ramp-up period typically lasting 24 months or more, during which they generated sales and income below the levels at which we expect them to normalize. This is in part due to the time it takes to build a customer base in a new area, higher fixed costs relating to increased occupancy costs and other start-up inefficiencies that are typical of new restaurants. New restaurants may not have similar results as our existing restaurants and may not be profitable. In addition, our average restaurant sales and comparable restaurant sales likely will not continue to increase at the rates achieved over the past several years. Our ability to operate new restaurants profitably and increase average restaurant sales and comparable restaurant sales will depend on many factors, some of which are beyond our control, including:

- executing our strategies effectively;
- initial sales performance of new restaurants;
- competition, either from our competitors in the restaurant industry, or from our own restaurants as some customers who frequent one of our restaurants may begin to visit one of our new restaurants instead;
- changes in consumer preferences and discretionary spending;
- consumer understanding and acceptance of the Chipotle experience;
- road construction and other factors limiting access to new restaurants;
- general economic conditions, which can affect restaurant traffic, local labor costs and prices we pay for the ingredients and other supplies we use, and
- changes in government regulation.

If we fail to open restaurants as quickly as planned or if new restaurants do not perform as planned, our business and future prospects could be harmed. In addition, changes in our average restaurant sales or comparable restaurant sales could cause our operating results to vary adversely from expectations, which could cause the price of our common stock to decline.

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, demand, food safety concerns, generalized infectious diseases, weakness 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 oil has increased over 2007 prices. This has resulted in upward pricing pressures on almost all of our raw ingredients including chicken, beef, tortillas and rice, and we expect that pressure to continue through 2008 and into 2009. In addition, freezes during 2007 in California and Chile put pricing pressure on avocados which has continued through 2008. We have also experienced a significant increase in cheese prices throughout 2008 as a result of the expiration of the pricing protocols under which we operated during 2007. We will also have a significant increase in the cost of rice, soy oil and sweet corn as a result of the renewal of those pricing protocols at the end of the third quarter of 2008.

Any increase in the prices of the ingredients most critical to our menu, such as beef, chicken, cheese, avocados, beans, tomatoes and pork, could adversely affect our operating results. Alternatively, in the event of cost increases with respect to one or more of our raw ingredients, we may choose to suspend serving menu items, such as guacamole, 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.

Instances of food-borne or localized illnesses could cause the temporary closure of some restaurants and result in negative publicity, thereby resulting in a decline in our sales, or could adversely affect the price and availability of the meat or produce we use to prepare our food.

Instances of food-borne illnesses, real or perceived, whether at our restaurants or those of our competitors, could result in negative publicity about us or the restaurant industry, which could adversely affect sales. For instance, a small number of Chipotle restaurants have recently been associated with separate outbreaks of customer illness, and even in markets in which we were never proven to be the cause of the illnesses our sales have been adversely impacted. If our customers become ill from food-borne illnesses, we could be forced to temporarily close some restaurants. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a change in our menu or dining experience or a temporary closure of any of our restaurants, could materially harm our business.

In addition, reports linking a nationwide outbreak of salmonella during the summer of 2008 to a variety of fresh produce items caused us to temporarily suspend serving some produce items in our foods or to otherwise alter our menu. Similarly, past outbreaks of e. coli relating to certain food items caused consumers to avoid certain products and restaurant chains, Asian and European countries have experienced outbreaks of avian flu, and incidents of mad cow disease have occurred in Canadian and U.S. cattle herds. These problems, other food-borne illnesses (such as hepatitis A or trichinosis) and injuries caused by food tampering have had in the past, and could have in the future, an adverse affect on the price and availability of affected ingredients. If we react to these problems by changing our menu or other key aspects of the Chipotle experience, we may lose customers who do not accept those changes, and may not be able to attract enough new customers to produce the revenue needed to make our restaurants profitable. Customers may also shift away from us if we choose to pass along to consumers any higher ingredient costs resulting from supply problems associated with outbreaks of food-borne illnesses, which would also have a negative impact on our sales and profitability.

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 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. Our competitors offer dine-in, carry-out and delivery services. Many of our competitors have existed longer and often have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. Among our main competitors are a number of multi-unit, multi-market Mexican food or burrito restaurant concepts, some of which are expanding nationally. As we expand further in existing markets, our existing restaurants may face competition from our new restaurants that begin operating in those markets.

Several of our competitors compete by offering menu items that are specifically identified as low in carbohydrates, better for customers or otherwise targeted at particular consumer preferences. Many of our competitors in the fast-casual and quick-service segments of the restaurant industry also emphasize lower-cost, value meal menu options, a strategy we do not pursue. Our sales may be adversely affected by these products and price competition.

Moreover, new companies may enter our markets and target our customers. For example, additional competitive pressures have come more recently from the deli sections and in-store cafés of several major grocery store chains, including those targeted at customers who want higher-quality food, as well as from convenience stores and casual dining outlets. These competitors may have, among other things, lower operating costs, better locations, better facilities, better management, more effective marketing and more efficient operations than we have.

In addition, our strategy includes opening additional restaurants in existing markets. As we open more restaurants in an existing market, sales may decline in some existing restaurants as customers who frequent one of our established restaurants may begin to visit one of our new restaurants instead.

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

CHIPOTLE MEXICAN GRILL, INC.

By: /s/ JOHN R. HARTUNG
Name: John R. Hartung

Title: Chief Financial Officer

Date: October 22, 2008

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Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Restated Certificate of Incorporation of Chipotle Mexican Grill, Inc.*
3.2	Restated Bylaws of Chipotle Mexican Grill, Inc.**
4.1	Form of Stock Certificate for Class A Common Stock.*
4.2	Form of Stock Certificate for Class B Common Stock.***
10.1	Chipotle Mexican Grill, Inc. Amended and Restated 2006 Stock Incentive Plan**
31.1	Certification of Chief Executive Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of President and Chief Operating Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Financial Officer of Chipotle Mexican Grill, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Chief Financial Officer and President and Chief Operating Officer of Chipotle Mexican Grill, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to Chipotle Mexican Grill, Inc. s annual report on Form 10-K for the year ended December 31, 2005 (File No. 001-32731).

** Incorporated by reference to Chipotle Mexican Grill, Inc. s current report on Form 8-K filed on September 29, 2008 (File No. 001-32731).

*** Incorporated by reference to Chipotle Mexican Grill, Inc. s quarterly report on Form 10-Q for the three months ended September 30, 2006 (File No. 001-32731).