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Counsel for Plaintiff

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

MICHAEL STRADFORD,
Individually and on behalf of all others
similarly situated,

Plaintiff,

v.

CHIPOTLE MEXICAN GRILL, INC.,
BRIAN NICCOL, and JOHN R.
HARTUNG,

Defendants.

No.

**CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS**

CLASS ACTION

JURY TRIAL DEMANDED

1 Plaintiff Michael Stradford (“Plaintiff”), individually and on behalf of all
2 other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s
3 complaint against Defendants (defined below), alleges the following based upon
4 personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and
5 belief as to all other matters, based upon, among other things, the investigation
6 conducted by and through his attorneys, which included, among other things, a
7 review of the Defendants’ public documents, public filings, wire and press releases
8 published by and regarding Chipotle Mexican Grill, Inc. (“Chipotle” or the
9 “Company”), and information readily obtainable on the Internet. Plaintiff believes
10 that substantial evidentiary support will exist for the allegations set forth herein
11 after a reasonable opportunity for discovery.

12 **NATURE OF THE ACTION**

13
14 1. This is a class action on behalf of persons or entities who purchased
15 or otherwise acquired publicly traded Chipotle common stock between February
16 8, 2024 and October 29, 2024, inclusive (the “Class Period”) and those who
17 purchased Chipotle call options or sold put options during the class period. Plaintiff
18 seeks to recover compensable damages caused by Defendants’ violations of the
19 federal securities laws under the Securities Exchange Act of 1934 (the “Exchange
20 Act”).

21 **JURISDICTION AND VENUE**

22 2. The claims asserted herein arise under and pursuant to Sections 10(b)
23 and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5
24 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

25 3. This Court has jurisdiction over the subject matter of this action
26 pursuant to 28 U.S.C. § 1331, and Section 27 of the Exchange Act (15 U.S.C.
27 §78aa).

1 16. On February 8, 2024, the Company filed with the SEC its annual
2 report on Form 10-K for the period ended December 31, 2023 (the “2023 Annual
3 Report”). Attached to the 2023 Annual Report were certifications pursuant to the
4 Sarbanes-Oxley Act of 2002 (“SOX”) signed by Defendants Niccol and Hartung
5 attesting to the accuracy of financial reporting, the disclosure of any material
6 changes to the Company’s internal control over financial reporting, and the
7 disclosure of all fraud.

8 17. The 2023 Annual Report contained the following risk disclosure:

9 ***The restaurant industry is highly competitive. If we are not able to compete***
10 ***successfully, our business, financial condition and results of operations***
11 ***would be adversely affected.***

12 The restaurant industry is highly competitive with respect to taste
13 preferences, price, food quality and selection, ***customer service, brand***
14 ***reputation***, digital engagement, advertising and promotional initiatives, and
15 the location, attractiveness and maintenance of restaurants. We also compete
16 with non-traditional market participants, such as “convenience meals” in the
17 form of entrées, side dishes or meal preparation kits from the deli or prepared
18 foods sections of grocery stores, meal kit delivery services, and “ghost” or
19 “dark” kitchens, where meals are prepared at separate takeaway premises
20 rather than a restaurant. Increased competition could have an adverse effect
21 on our sales, profitability and development plans. If guest or dietary
22 preferences change, if our marketing efforts are unsuccessful, or if our
23 restaurants are unable to compete successfully with other restaurant outlets,
24 our business could be adversely affected.

25 We continue to believe that our commitment to higher-quality and
26 responsibly sourced ingredients resonates with guests and gives us a
27 competitive advantage; however, many of our competitors also make claims
28 related to the quality of their ingredients and lack of artificial flavors, colors
and preservatives. The increasing use of these claims by competitors,
regardless of the accuracy of such claims, may lessen our differentiation and
make it more difficult for us to compete. ***If we are unable to continue to***
maintain our distinctiveness and compete effectively, our business,
financial condition and results of operations could be adversely affected.

1 (Emphasis added).

2
3 18. The statement in ¶ 17 was materially false and misleading because
4 the Company understated how difficult it would be to compete given that the
5 Company provided customers with highly inconsistent (and in the view of some
6 customers, lacking) portion sizes.

7 19. The 2023 Annual Report contained the following risk disclosure:
8 ***If we do not continue to persuade guests of the benefits of paying higher***
9 ***prices for our higher-quality food, our sales and results of operations***
10 ***could be hurt.***

11 Our success depends in large part on our ability to persuade guests that food
12 made with ingredients that were raised or grown according to our Food with
13 Integrity principles are worth paying a higher price relative to prices of some
14 of our competitors, particularly quick-service restaurants. Under our Food
15 with Integrity principles, for example, animals must be responsibly raised,
16 and the milk in our sour cream, cheese and queso must come from cows that
17 have not been treated with rBGH, practices which typically are more costly
18 than conventional farming. If we are not able to successfully persuade guests
19 that consuming food made in accordance with our Food with Integrity
20 principles is better for them and the environment, ***or if guests do not agree***
21 ***with the overall value proposition of our menu***, our sales could be adversely
22 affected, which would negatively impact our results of operations.

23 (Emphasis added).

24 20. The statement in ¶ 19 was materially false and misleading because the
25 Company understated how difficult it would be to convince customers of the
26 “overall value proposition of its menu” given that the Company provided
27 customers with highly inconsistent (and in the view of some customers, lacking)
28 portion sizes.

21. On April 25, 2024, the Company filed with the SEC its annual report
on Form 10-Q for the period ended March 31, 2024 (the “1Q24 Report”). Attached
to the 2023 Annual Report were certifications pursuant to SOX signed by

1 Defendants Niccol and Hartung attesting to the accuracy of financial reporting, the
2 disclosure of any material changes to the Company’s internal control over financial
3 reporting, and the disclosure of all fraud.

4 22. The 1Q24 Report incorporated the risk disclosures from the 2023
5 Annual Report, certain of which were false for the reasons stated in ¶¶ 18 and 20.

6 23. Over the spring and summer of 2024, Chipotle customers began to air
7 grievances on social media about portion sizes at Chipotle restaurants being
8 inconsistent or lacking.

9 24. On May 29, 2024, The Washington Post published an article entitled
10 “Chipotle portions haven’t shrunk, company says after TikTok backlash.” This
11 article stated that there has been “*increasingly vocal online complaints in recent*
12 *months from diners about the perceived stinginess of the burrito chain’s*
13 *portions*, once thought to be so generous that a crafty ordered could feed
14 themselves for days from a single bowl.” (Emphasis added). It then stated the
15 following:

16 *But things took a turn when massively influential food reviewer Keith Lee*
17 *echoed those laments* – and added a few dings of his own – in a May 3
18 TikTok review.

19 Lee, whose mild-mannered delivery and efforts to avoid getting special
20 treatment have distinguished him from a sea of online food reviewers, wields
21 considerable influence, even beyond his 16.3 million TikTok followers. (It’s
22 called the Keith Lee effect, and it’s real.)

23 “I used to love Chipotle,” he said at the start of the segment, in which he
24 ordered several menu items. “Lately, Chipotle has not hit the same, in my
25 opinion.” Things did not get better from there. *He struggled to find bits of*
26 *chicken in his bowl. “See, I don’t see no chicken at all,”* he said as dug
27 around in disappointment, ultimately giving it a 2 out of 10 rating after
28 locating a few lonely chunks. His formerly favorite steak quesadilla got a
2.5 (“tastes like Steak-umms”).

1 29. Another said “[a]t least skimping on chicken/meat may make
2 financial sense to them. *They are skimping on rice and beans on veggie bowls.*
3 That’s crazy.” (Emphasis added).

4 30. In the same Fortune article, Brian Niccol was quoted as saying that
5 “portions have not gotten smaller.” He further stated the following:

6 *We always want to give people big portions that get them excited about the*
7 *food.* If you want to double the amount of meat, you gotta pay for it, but our
8 goal is to get people really excited about what I believe is really delicious
9 food.

10 (Emphasis added).

11 31. The statements in ¶¶ 26 and 30 were materially false and misleading
12 when made because portions had in fact gotten smaller in many cases.

13 32. On July 4, 2024, Fox Business published an article entitled “Wells
14 Fargo analysts ‘weigh in’ on Chipotle portion sizing after restaurant chain faces
15 backlash online.”

16 33. This article referenced how Chipotle had been facing consumer
17 criticism for decreased portion sizes in items such as burrito bowls. It then
18 discussed how a Wells Fargo analyst started recording data on Chipotle portion
19 sizes to see if the Company did in fact have inconsistent portions.

20 34. The Wells Fargo analyst ordered “75 like-for-like” burrito bowls
21 across eight locations in New York City, and found that the smallest burrito bowl
22 was 13.8 ounces, and the largest was 26.8 ounces.

23 35. In response to these findings, Chipotle’s chief corporate affairs officer
24 made the following statement to Fox Business:

25 Similar to others in the fast casual industry, our completely customizable
26 meals may have variability in their size or weight depending upon the
27 number of ingredients a guest selects or if they choose to make an ingredient
28 extra or light when ordering from our list of real ingredients in-person or

1 *With that said, getting the feedback caused us to relook at our execution*
2 *across our entire system with the intention to always serve our guests*
3 *delicious, fresh, custom burritos, and [bowls] with generous portions.*

4 To be more consistent across all 3,500 restaurants, we have focused in on
5 those with outlier portion scores based on consumer surveys, and we are
6 reemphasizing training and coaching around ensuring we are consistently
7 making bowls and burritos correctly.

8 We have also leaned in and reemphasized generous portions across all of our
9 restaurants as it is a core brand equity of Chipotle. Our guests expect this
10 now more than ever, and we are committed to making this investment to
11 reinforce that Chipotle stands for a generous amount of delicious, fresh food
12 at fair prices for every customer, every visit.

13 The good news is that we are already beginning to see our actions positively
14 reflected in our consumer scores and our value proposition remains very
15 strong. We believe our focus on operations, including throughput as well as
16 terrific marketing and menu innovation, have strengthened the brand and our
17 value proposition. And we will continue to listen to and treasure our guests
18 to earn every transaction.

19 (Emphasis added).

20 39. Brian Niccol further revealed that that the company would have
21 higher cost of sales in the third quarter of 2024, partially as a result of giving
22 customers more generous portions. He stated the following:

23 For Q3, we expect our cost of sales to be just below 31%. About one-third
24 of the step-up is due to the higher protein costs as we roll out Chicken al
25 Pastor and then launched Smoke Brisket later in the quarter.

26 About one-third is due to an uptick in dairy and avocado prices and the final
27 one-third are about *40 to 60 basis points [SIC] is an investment we are*
28 *making as we focus on outlier restaurants to ensure correct and generous*
portion. We expect this investment will ease from these levels somewhat.
We also believe that we can offset the remaining investment with
efficiencies and innovation over time.

1 While avocado prices are higher than the very favorable levels we have seen
2 over the past several quarters, this is in line with our expectations from
3 earlier this year. Additionally, we are less impacted by the recent volatility
4 in the Mexican avocado market, as our supply chain team has done a
5 fantastic job of diversifying our exposure, and in the third quarter, the
6 majority of our avocados come from Peru.

7 Outside of avocados and the protein mix shift, we anticipate underlying cost
8 of sales inflation will be in the low single-digits range for the remainder of
9 the year.

10 (Emphasis added).

11 40. On this news, the price of Chipotle stock fell \$0.96 per share, or
12 1.85%, to close at \$50.82 on July 25, 2024. It fell a further \$0.99 per share, or 1.9%,
13 to close at \$49.83 on July 26, 2024.

14 41. On October 29, 2024, after market hours, the Company held its Q3
15 2024 earnings call. In this earnings call, interim Chief Executive Officer Scott
16 Boatwright stated that the following:

17 Cost of sales in the quarter were 30.6%, an increase of about 90 basis points
18 from last year. The benefit of last year's menu price increase was more than
19 offset by inflation across several items, most notably avocados and dairy, as
20 well as higher usage as we focused on ensuring consistent and generous
21 portions, and the mixed impact from our premium Smoked Brisket LTO.

22 42. On October 30, 2024, during market hours, *Business Insider*
23 published an article entitled “Chipotle says ensuring ‘consistent and generous
24 portions’ has taken a toll on its profitability.” It stated the following:

25 It has been a big year for the humble scoop – at Chipotle, at least.

26 ***Profit margins for the chain suffered last quarter because of a concerted
27 effort to provide “consistent and generous portions” in every order, the
28 company said Tuesday.***

The issue was first highlighted when dissatisfied customers – protesting
against what they saw as skimpy or inconsistent serving sizes at the

1 restaurant chain – used social media this summer to complain about their
2 scoops of protein and to try to maximize their meals.

3 Investors noticed, with one analyst going so far as to order 75 chicken and
4 rice bowls from eight New York City Chipotle locations and finding that the
5 total weight of each varied considerably.

6 *All the scrutiny has prompted the burrito and bowl chain to embark on an*
7 *initiative to ensure everyone gets a consistent meal every visit.*

8 (Emphasis added).

9 43. The article further stated that while ensuring the right portion might
10 be “good news for Chipotle diners, *the chain said it was partly the reason for a*
11 *hit to profitability in the last fiscal quarter.*” (Emphasis added).

12 44. On this news, the price of Chipotle stock fell \$4.76 per share, or
13 7.86%, to close at \$55.73 on October 30, 2024.

14 45. As a result of Defendants’ wrongful acts and omissions, and the
15 precipitous decline in the market value of the Company’s common shares, Plaintiff
16 and other Class members have suffered significant losses and damages.

17 **PLAINTIFF’S CLASS ACTION ALLEGATIONS**

18 46. Plaintiff brings this action as a class action pursuant to Federal Rule
19 of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons
20 other than defendants who purchased Chipotle’s common stock or purchased
21 Chipotle call options or sold put options during the Class Period, and who were
22 damaged thereby (the “Class”). Excluded from the Class are Defendants, the
23 officers and directors of the Company, members of the Individual Defendants’
24 immediate families and their legal representatives, heirs, successors or assigns and
25 any entity in which Defendants have or had a controlling interest.
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1 47. The members of the Class are so numerous that joinder of all members
2 is impracticable. Throughout the Class Period, the Company's securities were
3 actively traded on NYSE. While the exact number of Class members is unknown
4 to Plaintiff at this time and can be ascertained only through appropriate discovery,
5 Plaintiff believes that there are hundreds, if not thousands of members in the
6 proposed Class.

7 48. Plaintiff's claims are typical of the claims of the members of the Class
8 as all members of the Class are similarly affected by Defendants' wrongful conduct
9 in violation of federal law that is complained of herein.

10 49. Plaintiff will fairly and adequately protect the interests of the
11 members of the Class and has retained counsel competent and experienced in class
12 and securities litigation. Plaintiff has no interests antagonistic to or in conflict with
13 those of the Class.

14 50. Common questions of law and fact exist as to all members of the Class
15 and predominate over any questions solely affecting individual members of the
16 Class. Among the questions of law and fact common to the Class are:

- 17 • whether the Exchange Act was violated by Defendants' acts as alleged
18 herein;
- 19 • whether statements made by Defendants to the investing public during
20 the Class Period misrepresented material facts about the business and
21 financial condition of the Company;
- 22 • whether Defendants' public statements to the investing public during
23 the Class Period omitted material facts necessary to make the statements
24 made, in light of the circumstances under which they were made, not
25 misleading;
- 26 • whether the Defendants caused the Company to issue false and
27 misleading filings during the Class Period;

- 1 • whether Defendants acted knowingly or recklessly in issuing false
- 2 filings;
- 3 • whether the prices of the Company securities during the Class Period
- 4 were artificially inflated because of the Defendants' conduct complained of
- 5 herein; and
- 6 • whether the members of the Class have sustained damages and, if so,
- 7 what is the proper measure of damages.

8 51. A class action is superior to all other available methods for the fair
9 and efficient adjudication of this controversy since joinder of all members is
10 impracticable. Furthermore, as the damages suffered by individual Class members
11 may be relatively small, the expense and burden of individual litigation make it
12 impossible for members of the Class to individually redress the wrongs done to
13 them. There will be no difficulty in the management of this action as a class action.

14 52. Plaintiff will rely, in part, upon the presumption of reliance
15 established by the fraud-on-the-market doctrine in that:

- 16 • the Company's shares met the requirements for listing, and were listed
- 17 and actively traded on NYSE, an efficient market;
- 18 • as a public issuer, the Company filed periodic public reports;
- 19 • the Company regularly communicated with public investors via
- 20 established market communication mechanisms, including through the
- 21 regular dissemination of press releases via major newswire services and
- 22 through other wide-ranging public disclosures, such as communications with
- 23 the financial press and other similar reporting services;
- 24 • the Company's securities were liquid and traded with moderate to
- 25 heavy volume during the Class Period; and
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- 1 • the Company was followed by a number of securities analysts
2 employed by major brokerage firms who wrote reports that were widely
3 distributed and publicly available.

4 53. Based on the foregoing, the market for the Company's securities
5 promptly digested current information regarding the Company from all publicly
6 available sources and reflected such information in the prices of the shares, and
7 Plaintiff and the members of the Class are entitled to a presumption of reliance
8 upon the integrity of the market.

9 54. Alternatively, Plaintiff and the members of the Class are entitled to
10 the presumption of reliance established by the Supreme Court in *Affiliated Ute*
11 *Citizens of the State of Utah v. United States*, 406 U.S. 128 (1972), as Defendants
12 omitted material information in their Class Period statements in violation of a duty
13 to disclose such information as detailed above.

14 **COUNT I**

15 **For Violations of Section 10(b) And Rule 10b-5 Promulgated Thereunder** 16 **Against All Defendants**

17 55. Plaintiff repeats and realleges each and every allegation contained
18 above as if fully set forth herein.

19 56. This Count is asserted against Defendants is based upon Section 10(b)
20 of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder
21 by the SEC.

22 57. During the Class Period, Defendants, individually and in concert,
23 directly or indirectly, disseminated or approved the false statements specified
24 above, which they knew or deliberately disregarded were misleading in that they
25 contained misrepresentations and failed to disclose material facts necessary in
26 order to make the statements made, in light of the circumstances under which they
27 were made, not misleading.

1 58. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that
2 they:

- 3 • employed devices, schemes and artifices to defraud;
- 4 • made untrue statements of material facts or omitted to state material
5 facts necessary in order to make the statements made, in light of the
6 circumstances under which they were made, not misleading; or
- 7 • engaged in acts, practices and a course of business that operated as a
8 fraud or deceit upon plaintiff and others similarly situated in connection with
9 their purchases of the Company's securities during the Class Period.

10 59. Defendants acted with scienter in that they knew that the public
11 documents and statements issued or disseminated in the name of the Company
12 were materially false and misleading; knew that such statements or documents
13 would be issued or disseminated to the investing public; and knowingly and
14 substantially participated, or acquiesced in the issuance or dissemination of such
15 statements or documents as primary violations of the securities laws. These
16 defendants by virtue of their receipt of information reflecting the true facts of the
17 Company, their control over, and/or receipt and/or modification of the Company's
18 allegedly materially misleading statements, and/or their associations with the
19 Company which made them privy to confidential proprietary information
20 concerning the Company, participated in the fraudulent scheme alleged herein.

21 60. Individual Defendants, who are the senior officers of the Company,
22 had actual knowledge of the material omissions and/or the falsity of the material
23 statements set forth above, and intended to deceive Plaintiff and the other members
24 of the Class, or, in the alternative, acted with reckless disregard for the truth when
25 they failed to ascertain and disclose the true facts in the statements made by them
26 or any other of the Company's personnel to members of the investing public,
27 including Plaintiff and the Class.

28

1 61. As a result of the foregoing, the market price of the Company's
2 securities was artificially inflated during the Class Period. In ignorance of the
3 falsity of Defendants' statements, Plaintiff and the other members of the Class
4 relied on the statements described above and/or the integrity of the market price of
5 the Company's securities during the Class Period in purchasing the Company's
6 securities at prices that were artificially inflated as a result of Defendants' false and
7 misleading statements.

8 62. Had Plaintiff and the other members of the Class been aware that the
9 market price of the Company's securities had been artificially and falsely inflated
10 by Defendants' misleading statements and by the material adverse information
11 which Defendants did not disclose, they would not have purchased the Company's
12 securities at the artificially inflated prices that they did, or at all.

13 63. As a result of the wrongful conduct alleged herein, Plaintiff and other
14 members of the Class have suffered damages in an amount to be established at trial.

15 64. By reason of the foregoing, Defendants have violated Section 10(b)
16 of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the
17 plaintiff and the other members of the Class for substantial damages which they
18 suffered in connection with their purchase of the Company's securities during the
19 Class Period.

20 **COUNT II**

21 **Violations of Section 20(a) of the Exchange Act**

22 **Against the Individual Defendants**

23 65. Plaintiff repeats and realleges each and every allegation contained in
24 the foregoing paragraphs as if fully set forth herein.

25 66. During the Class Period, the Individual Defendants participated in the
26 operation and management of the Company, and conducted and participated,
27 directly and indirectly, in the conduct of the Company's business affairs. Because
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1 of their senior positions, they knew the adverse non-public information about the
2 Company's business practices.

3 67. As officers of a publicly owned company, the Individual Defendants
4 had a duty to disseminate accurate and truthful information with respect to the
5 Company's financial condition and results of operations, and to correct promptly
6 any public statements issued by the Company which had become materially false
7 or misleading.

8 68. Because of their positions of control and authority as senior officers,
9 the Individual Defendants were able to, and did, control the contents of the various
10 reports, press releases and public filings which the Company disseminated in the
11 marketplace during the Class Period concerning the Company's results of
12 operations. Throughout the Class Period, the Individual Defendants exercised their
13 power and authority to cause the Company to engage in the wrongful acts
14 complained of herein. The Individual Defendants therefore, were "controlling
15 persons" of the Company within the meaning of Section 20(a) of the Exchange
16 Act. In this capacity, they participated in the unlawful conduct alleged which
17 artificially inflated the market price of the Company's securities.

18 69. By reason of the above conduct, the Individual Defendants are liable
19 pursuant to Section 20(a) of the Exchange Act for the violations committed by the
20 Company.

21 **PRAYER FOR RELIEF**

22 **WHEREFORE**, Plaintiff, on behalf of himself and the Class, prays for
23 judgment and relief as follows:

24 (a) declaring this action to be a proper class action, designating Plaintiff
25 as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of
26 the Federal Rules of Civil Procedure and designating Plaintiff's counsel as Lead
27 Counsel;

1 (b) awarding damages in favor of Plaintiff and the other Class members
2 against all Defendants, jointly and severally, together with interest thereon;

3 (c) awarding Plaintiff and the Class reasonable costs and expenses
4 incurred in this action, including counsel fees and expert fees; and

5 (d) awarding Plaintiff and other members of the Class such other and
6 further relief as the Court may deem just and proper.

7 **JURY TRIAL DEMANDED**

8 Plaintiff hereby demands a trial by jury.

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10 Dated: November 11, 2024

Counsel for Plaintiff

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