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Pebblebrook Hotel Trust
Form 8-K
February 10, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): February 10, 2014 (February 4, 2014)

PEBBLEBROOK HOTEL TRUST

(Exact name of registrant as specified in its charter)

Maryland

001-34571

27-1055421

(State or other jurisdiction
of incorporation)

(Commission
File Number)

(I.R.S. Employer
Identification No.)

2 Bethesda Metro Center, Suite 1530,
Bethesda, Maryland

20814

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (240) 507-1300

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

The information set forth under Item 5.02 of this Current Report on Form 8-K regarding the Share Award Agreements and Performance Unit Award Agreements entered into in connection with the compensation plan described under Item 5.02 is hereby incorporated by reference under this Item 1.01.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On February 4, 2014, the Board of Trustees (the “Board”) of Pebblebrook Hotel Trust (the “Company”) approved, as recommended by the Compensation Committee of the Board (the “Compensation Committee”), compensatory arrangements in which the executive officers of the Company will participate for 2014.

For 2014, the Compensation Committee and Board determined that compensation for each executive will consist of: (i) an annual cash base salary; (ii) an annual cash bonus incentive award under the Company’s 2009 Equity Incentive Plan, as amended and restated (the “Plan”); and (iii) two forms of long-term equity-based compensation - 40% as an award of restricted common shares of beneficial interest of the Company (“Common Shares”) subject to time-based vesting provisions over a three-year period and 60% as an award of performance units pursuant to the Plan, subject to performance-based vesting over a three-year performance period. Pursuant to the performance-based vesting provisions, the performance units will vest after January 1, 2017 only if certain performance objectives are achieved. If earned, the performance units will be settled in the form of Common Shares, pursuant to the Plan.

The following table shows each of the three components of target total compensation as a percentage of target total compensation for 2014 as determined by the Compensation Committee and Board on February 4, 2014.

| | 2014 Target Compensation: Components as a Percentage of Target Total Compensation | | |
|------------------|--|-----------------------------|---|
| | Base Salary | Target Cash Incentive Bonus | Target Equity-Based Compensation ⁽¹⁾ |
| Jon E. Bortz | 25% | 25% | 50% |
| Raymond D. Martz | 29% | 26% | 45% |
| Thomas C. Fisher | 29% | 26% | 45% |

(1) Percentages include awards in February 2014 of time-based restricted Common Shares and performance units, which comprise 40% and 60%, respectively, of the target equity-based compensation amount.

Base Salary and Annual Cash Incentive Bonus

The Compensation Committee and the Board approved the following cash compensation arrangements for 2014 for each of the executive officers:

| | Base Salary | Target Cash Incentive Bonus | Target Cash Incentive Bonus as a % of | |
|------------------|-------------|-----------------------------|---------------------------------------|--|
| | | | Base Salary | Target Total Compensation ⁽¹⁾ |
| Jon E. Bortz | \$750,000 | \$750,000 | 100% | 25% |
| Raymond D. Martz | \$400,000 | \$365,000 | 91% | 26% |
| Thomas C. Fisher | \$400,000 | \$365,000 | 91% | 26% |

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(1) Target total compensation includes base salary, target cash incentive bonus, time-based restricted Common Shares and the target amount of performance units, as discussed below.

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For each executive, the target cash incentive bonus is contingent on the Company meeting the target levels of certain management objectives and goals established by the Board (the “2014 Annual Objectives”), which are set at the beginning of the year and are designed to align the incentives of the Company’s employees and management with the interests of the Company’s shareholders. The actual amount of cash bonus that will be paid in 2015 for performance in 2014 will depend on the Company’s performance against the 2014 Annual Objectives and could be as little as zero or as much as 200% of the target cash incentive bonus.

There are three 2014 Annual Objectives:

35% is determined by the percentage growth of the Company’s comparable hotel-level earnings before interest, taxes, depreciation and amortization (“EBITDA”) from December 31, 2013 to December 31, 2014 compared to the average percentage growth in the same measure for a group of seven peer companies in the full service hotel sector, including Ashford Hospitality Trust, Chesapeake Lodging Trust, DiamondRock Hospitality Company, Host Hotels & Resorts, Inc., LaSalle Hotel Properties, Strategic Hotels & Resorts, Inc. and Sunstone Hotel Investors, Inc. (together, the “Peer Group”), (the “2014 EBITDA Growth Objective”);

35% is determined by the percentage growth of the Company’s adjusted funds from operations (“Adjusted FFO”) per Common Share from December 31, 2013 to December 31, 2014 compared to the average percentage growth in the same measure per share for the Peer Group (the “2014 Adjusted FFO Growth Objective”);

30% is determined by the degree to which particular business objectives, including asset management initiatives, certain capital re-investment programs, acquisition goals and internal controls and compliance, are met (the “2014 Operating Objective”).

The level of performance against each 2014 Annual Objective will be measured relative to a target. The payout level of each objective varies by level of performance achieved, from a minimum of 0% up to target and maximum amounts that differ by objective, as shown in the following table:

| 2014 Annual Objectives | Minimum % of Target Bonus | Decrease Increment | Target Performance and % of Target Bonus | Increase Increment | Maximum % of Target Bonus |
|--|---|--|--|--------------------------------|---------------------------|
| 2014 EBITDA Growth | Performance (relative to Target Performance) | For every 100 basis points ("bps") below | EBITDA Growth = Peer-Group Avg. | For every 100 bps above target | |
| | Payout Level (% of Target Bonus) | 0% | 700 bps less | 35% | 700 bps more 87.5% |
| 2014 Adjusted FFO Growth | Performance (relative to Target Performance) | For every 100 bps below target | Adjusted FFO Growth = Peer-Group Avg. | For every 100 bps above target | |
| | Payout Level (% of Target Bonus) | 0% | 700 bps less | 35% | 700 bps more 87.5% |
| 2014 Operating | Performance (5-point scale - assessed by Board) | 1 | 2 | 3 | 4 5 |
| | Payout Level (% of Target Bonus) | 0% | 15% | 30% | 45% 60% |
| Aggregate (as percent of Target Bonus) | 0% | | 100% | | 200% |

Regardless of the Company's actual performance against one or more of the 2014 Annual Objectives, no executive officer will be entitled to receive more than a maximum of 200% of his target cash incentive bonus for an annual cash bonus incentive award. In addition, each 2014 Annual Objective has a maximum cap on the percentage of the target cash incentive

bonus that the executive officers may earn: 87.5%, 87.5% and 60% in the case of the 2014 EBITDA Growth Objective, the 2014 Adjusted FFO Growth Objective and the 2014 Operating Objective, respectively.

Long-Term Equity Incentive Awards

The Compensation Committee and the Board approved long-term equity incentive awards to each executive officer for 2014, consisting of an award of restricted Common Shares subject to time-based vesting and an award of performance units (which, if vested, will settle in the form of Common Shares) subject to performance-based vesting. Long-term equity incentive awards are intended to provide grantees with an incentive to promote the long-term success of the Company in line with the interest of the Company's shareholders.

Award of Time-Based Restricted Common Shares

For 2014, the Board awarded time-based restricted Common Shares, which will vest ratably on January 1, 2015, January 1, 2016 and January 1, 2017, provided that the recipient remains employed by the Company through the applicable vesting date or as otherwise described below, to Messrs. Bortz, Martz and Fisher as follows:

- Mr. Bortz - 19,717 shares;
- Mr. Martz - 8,216 shares; and
- Mr. Fisher - 8,216 shares.

The vesting-related terms of the time-based restricted Common Share awards granted to each of Messrs. Bortz, Martz and Fisher also provide that:

- upon a change in control of the Company, unvested awards vest;
- upon termination of the executive's employment with the Company because of his death or disability, the unvested awards vest;
- upon resignation of the executive for good reason (which must be in connection with or within one year after a change in control), unvested awards vest;
- upon termination of the executive's employment with the Company without cause, the unvested awards vest; and
- upon termination of the executive's employment with the Company for cause, the unvested awards are forfeited.

Except as described above, any awards that are unvested at the time the executive terminates his employment with the Company are forfeited.

The restricted Common Shares were awarded pursuant to Share Award Agreements substantially in the form filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q on April 26, 2012, which form is incorporated herein by reference.

Award of Performance Units

For 2014, the Board awarded performance units (which, if vested, will settle in the form of Common Shares) to each of the Company's executive officers. The performance units will vest only if, and to the degree that, long-term performance criteria established by the Board (the "2014 Long-Term Objectives") are met, provided that the recipient remains employed by the Company through January 1, 2017 or as otherwise described below.

There are three 2014 Long-Term Objectives:

- 30% is determined by the Company's total shareholder return (Common Share price appreciation/depreciation plus paid dividends) ("TSR") measured from December 31, 2013 through December 31, 2016 compared to the Peer Group's average TSR (the "2014 Group TSR Objective");
- 30% is determined by the Company's total shareholder return (Common Share price appreciation/depreciation plus paid dividends) from December 31, 2013 through December 31, 2016 (the "2014 Absolute TSR Objective"); and
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40% is determined by the reduction of the gap between the Company's hotel-level EBITDA margin and that reported by LaSalle Hotel Properties from December 31, 2013 through December 31, 2016, measured annually (the "2014 Direct Competitor Objective").

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The level of performance against each 2014 Long-Term Objective will be measured relative to a target. The payout level of each objective varies by level of performance achieved, from a minimum of 0% up to target and maximum amounts that differ by objective, as shown in the following table:

| 2014 Long-Term Objectives | Minimum % of Target | Decrease Increment | Target Performance and % of Target Bonus | Increase Increment | Maximum % of Target |
|--|---|--------------------------------|---|--|---------------------|
| Group TSR | Performance (relative to Target Performance) Payout Level (percent of Target Bonus) | > 600 bps below 0% | For every 100 bps below target 500 bps less 30% | TSR = Peer-Group Avg. For every 100 bps above target 500 bps more | 60% |
| Absolute TSR | Performance (relative to Target Performance) Payout Level (percent of Target Bonus) | < 5% 0% | For every 100 bps below target 750 bps less 30% | 9% TSR For every 100 bps above target 750 bps more | 60% |
| Direct Competitor | Performance (relative to Target Performance) Payout Level (percent of Target Bonus) | > 40 bps increase in gap 0% | For every 10 bps increase in EBITDA margin gap 1,000 bps less 40% | No change in EBITDA margin gap For every 10 bps decrease in EBITDA margin gap 1,000 bps more | 200% |
| Aggregate (as percent of Target Bonus) | 0% | | 100% | | 200% |

Regardless of the Company's actual performance against one or more of the 2014 Long-Term Objectives, the maximum amount of performance units that can vest for any of the executive officers is 200% of the executive's target number of performance units.

The target and maximum number of performance units subject to the 2014 Long-Term Objectives for the Company's three executive officers are as follows, and in each case the minimum number is zero:

- Mr. Bortz - 29,576 target (59,152 maximum);
- Mr. Martz - 12,323 target (24,646 maximum); and
- Mr. Fisher - 12,323 target (24,646 maximum).

For each executive, the actual amount of performance units that will vest (and be settled in the form of Common Shares) after December 31, 2016 will depend on the Company's performance against the 2014 Long-Term Objectives and requires that the recipient remains employed by the Company through December 31, 2016 or as otherwise described below. The performance units will, prior to vesting, not be entitled either to receive dividends or to be voted, but dividends will, in effect, accrue on the units and will be paid if, but only if, and to the extent the performance units vest and are settled in the form of Common Shares.

The vesting-related terms of the performance units granted to each of Messrs. Bortz, Martz and Fisher also provide that, prior to December 31, 2016, upon termination of the executive's employment with the Company: (i) for cause, the

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unvested units are forfeited; and (ii) under the following scenarios, the number of units that shall vest will be the greater of (x) the target number of units and (y) the number of units determined by the performance provisions:

- upon a change in control of the Company;
- upon termination of the executive's employment with the Company because of his death or disability;
- upon resignation of the executive for good reason (which must be in connection with or within one year after a change in control); and
- upon termination of the executive's employment with the Company without cause.

The performance units were awarded pursuant to Performance Unit Award Agreements, substantially in the form attached as Exhibit 10.1 to this of Current Report on Form 8-K, which form is hereby incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

| Exhibit No. | Description |
|-------------|--|
| 10.1* | Form of Performance Unit Award Agreement (for executive officers). |

* Management agreement or compensatory plan or arrangement.

SIGNATURE

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

PEBBLEBROOK HOTEL TRUST

Date: February 10, 2014

By: /s/ Raymond D. Martz
Name: Raymond D. Martz
Executive Vice President, Chief Financial
Officer, Treasurer and Secretary

EXHIBIT INDEX

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|-------------|--|
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