

Edgar Filing: Pebblebrook Hotel Trust - Form 8-K

Pebblebrook Hotel Trust  
Form 8-K  
February 16, 2018

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 14, 2018

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.)

7315 Wisconsin Avenue, Suite 1100 West, 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))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.



Item 1.01. Entry into a Material Definitive Agreement.

The information regarding the Share Award Agreements and Performance Unit Award Agreements set forth under Item 5.02 of this Current Report on Form 8-K is hereby incorporated by reference under this Item 1.01. Copies of the forms of such agreements are filed as Exhibits 10.1 and 10.2, respectively, to this Current Report on Form 8-K and incorporated by reference herein.

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

On February 14, 2018, 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 2018.

For 2018, the Compensation Committee and the 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 effective July 10, 2012, as amended (the “Plan”); and (iii) awards of long-term equity-based compensation under the Plan. The awards of long-term equity-based compensation consist of restricted Common Shares and performance units. The restricted Common Shares are subject to pro rata time-based vesting provisions over a three-year period beginning January 1, 2019. The performance units are subject to performance-based vesting over a three-year performance period and will vest, if at all, after January 1, 2021 only if certain enumerated performance objectives are achieved. If vested, the performance units will be settled in the form of Common Shares, pursuant to the Plan. Of the long-term equity-based compensation awarded to each executive officer, 40% is in the form of restricted Common Shares subject to pro rata time-based vesting and 60% is in the form of performance units subject to performance-based vesting.

The following table shows each of the three components of target total compensation as a percentage of target total compensation for 2018 as determined by the Compensation Committee and the Board.

2018 Target Compensation:  
Components as a Percentage of Target Total Compensation <sup>(1)</sup>  
Base Salary Target Cash Incentive Bonus Target Equity-Based Compensation<sup>(2)</sup>

Jon E. Bortz	18%	29%	53%
Raymond D. Martz	24%	23%	52%
Thomas C. Fisher	24%	23%	52%

<sup>(1)</sup> 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.

<sup>(2)</sup> Percentages include the February 2018 awards 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 2018 for each of the executive officers:

	Base Salary	Target Cash Incentive Bonus	Target Cash Incentive Bonus as a % of	
			Base Salary	Target Total Compensation <sup>(1)</sup>
Jon E. Bortz	\$750,000	\$1,203,750	161%	53%
Raymond D. Martz	\$450,000	\$428,000	95%	52%
Thomas C. Fisher	\$450,000	\$428,000	95%	52%

<sup>(1)</sup> 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.

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 “2018 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 2019 for performance in 2018 will depend on the Company’s performance against the 2018 Annual Objectives and could be as little as zero or as much as 200% of the target cash incentive bonus.

There are five 2018 Annual Objectives:

30% is determined by the percentage growth of the Company’s comparable hotel-level earnings before interest, taxes, depreciation and amortization (“EBITDA”) from December 31, 2017 to December 31, 2018 compared to the average percentage growth in the same measure for a group of six peer companies in the full service hotel sector, Chesapeake Lodging Trust, DiamondRock Hospitality Company, Host Hotels & Resorts, Inc., LaSalle Hotel Properties, Park Hotels & Resorts Inc., Sunstone Hotel Investors, Inc. and Xenia Hotels & Resorts, Inc. (together, the “Peer Group”), (the “2018 EBITDA Growth Objective”);

20% is determined by the growth of the Company’s adjusted funds from operations (“Adjusted FFO”) per Common Share from December 31, 2017 to December 31, 2018 compared to the same measure per share provided in the Company’s budget for 2018 (the “2018 Adjusted FFO Growth Objective”);

20% is determined by the growth in the Company’s RevPAR penetration index from December 31, 2017 to December 31, 2018 compared to the competitive sets for the Company’s portfolio (the “2018 RevPar Penetration Objective”);

10% is determined by the amount of annualized hotel-level EBITDA improvements that can be made based on asset management enhancements identified during 2018 (the “2018 Asset Management Objective”); and

20% is determined by the degree to which particular business objectives, including asset management initiatives, acquisition/disposition goals, corporate finance and balance sheet goals and internal controls and compliance, are met (the “2018 Operating Objective”).

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The level of performance against each 2018 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:

2018 Annual Objectives	Minimum % of Target Bonus	Decrease Increment	Target Performance and of Target Bonus	% Increase Increment	Maximum % of Target Bonus	
2018 EBITDA Growth	Performance (relative to Target Performance) Payout Level (% of Target Bonus)	0%	For every 100 basis points ("bps") below 700 bps less	EBITDA Growth = Peer-Group Average 25%	For every 100 bps above target 75%	
2018 Adjusted FFO per share	Performance (relative to Target Performance) Payout Level (% of Target Bonus)	0%	For every \$0.0125 below target 100 bps less	Adjusted FFO = Budgeted Amount 20%	For every \$0.0125 above target 60%	
2018 RevPAR Penetration	Performance (relative to Target Performance) Payout Level (% of Target Bonus)	0%	For every 15 bps below target 200 bps less	150 bps increase in RevPAR Penetration 25%	For every 15 bps above target 75%	
2018 Asset Management	Performance (relative to Target Performance) Payout Level (% of Target Bonus)	≤ \$0.5M identified 0%		\$1.5M identified 10%	≥ \$2.0M identified 20%	
2018 Operating	Performance (relative to Target Performance) Payout Level (% of Target Bonus)	1 0%	2 10%	3 20%	4 30%	5 40%
Aggregate (as percent of Target Bonus)		0%		100%	200%	

Regardless of the Company's actual performance against one or more of the 2018 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 2018 Annual Objective has a maximum cap on the percentage of the target cash incentive bonus that the executive officers may earn: 75%, 60%, 75%, 20% and 40% in the case of the 2018 EBITDA Growth Objective, the 2018 Adjusted FFO Growth Objective, the 2018 RevPAR Penetration Objective, the 2018 Asset Management Objective and the 2018 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 2018, consisting of an award of restricted Common Shares subject to time-based vesting and an award of performance units subject to performance-based vesting (which, if vested, will settle in the form of Common Shares). 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 2018, the Board awarded time-based restricted Common Shares, which will vest ratably on January 1, 2019, January 1, 2020 and January 1, 2021, 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 - 23,619 shares;
- Mr. Martz - 10,509 shares; and
- Mr. Fisher - 10,509 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, 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, unvested awards vest; and
- upon termination of the executive's employment with the Company for cause, 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.

A copy of the form of agreement pursuant to which the restricted Common Shares were awarded (the "Share Award Agreement") is filed as Exhibit 10.1 to this Current Report on Form 8-K and incorporated by reference herein.

#### Award of Performance Units

For 2018, 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 "2018 Long-Term Objectives") are met, provided that the recipient remains employed by the Company through January 1, 2021 or as otherwise described below.

There are two 2018 Long-Term Objectives:

- 65% is determined by the Company's total shareholder return (Common Share price appreciation/depreciation plus paid dividends) ("TSR") measured from December 31, 2017 through December 31, 2020 compared to the TSR of each member of the Peer Group (the "2018 Relative TSR Objective"); and
  - 35% is determined by the Company's TSR from December 31, 2017 through December 31, 2020 (the "2018 Absolute TSR Objective").
-

The level of performance against each 2018 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 (and payout levels between minimum and target, or between target and maximum, will be interpolated):

2018 Long-Term Objectives	Minimum % of Target Bonus	Target Performance and % of Target Bonus	Maximum % of Target Bonus
2018 Relative TSR	Performance (relative to Target Performance) Payout Level (percent of Target Bonus)	TSR < Peer Group min. 0%	TSR in 50 <sup>th</sup> percentile of Peer-Group 65%
2018 Absolute TSR	Performance (relative to Target Performance) Payout Level (percent of Target Bonus)	< 0% TSR 0%	6% TSR 35%
			TSR > 15% TSR 87.5%
Aggregate (as percent of Target Bonus)	0%	100%	200%

Regardless of the Company's actual performance against one or more of the 2018 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 2018 Long-Term Objectives for the Company's three executive officers are as follows, and in each case the minimum number is zero:

- Mr. Bortz - 35,428 target (70,856 maximum);
- Mr. Martz - 15,764 target (31,528 maximum); and
- Mr. Fisher - 15,764 target (31,528 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, 2020 will depend on the Company's performance against the 2018 Long-Term Objectives as determined by the Compensation Committee and requires that the recipient remains employed by the Company through December 31, 2020 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, 2020, upon termination of the executive's employment with the Company: (i) for cause, the unvested units are forfeited; and (ii) under the following scenarios, the number of units that shall vest will be up to 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.



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A copy of the form of agreement pursuant to which the performance units were awarded (the “Performance Unit Award Agreement”) is filed herewith as Exhibit 10.2 and is incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
<u>10.1</u> †	Form of Share Award Agreement (time-based vesting) for Executive Officers
<u>10.2</u> †	Form of Performance Unit Award Agreement for Executive Officers

† Filed herewith.

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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 16, 2018

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