# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2017**

**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: 001-35198**

**Pandora Media, Inc.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **94-3352630** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **2101 Webster Street, Suite 1650 Oakland, CA** | **94612** |
| (Address of principal executive offices) | (Zip Code) |

**(510) 451-4100**
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |
| (Do not check if a smaller reporting company) | Emerging growth company ☐ |

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

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

The number of shares of registrant's common stock outstanding as of May 4, 2017 was: 240,358,500.

**Pandora Media, Inc.**

**FORM 10-Q Quarterly Report**

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

**Pandora Media, Inc.**
**Condensed Consolidated Balance Sheets**
**(in thousands, except share and per share amounts)**
**(unaudited)**

| | As of December 31, 2016 | As of March 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $ 199,944 | $ 170,881 |
| Short-term investments | 37,109 | 32,123 |
| Accounts receivable, net of allowance of $3,633 at December 31, 2016 and $3,912 at March 31, 2017 | 309,267 | 262,934 |
| Prepaid content acquisition costs | 46,310 | 48,542 |
| Prepaid expenses and other current assets | 33,191 | 29,422 |
| Total current assets | 625,821 | 543,902 |
| Long-term investments | 6,252 | — |
| Property and equipment, net | 124,088 | 128,815 |
| Goodwill | 306,691 | 306,421 |
| Intangible assets, net | 90,425 | 85,289 |
| Other long-term assets | 31,533 | 33,721 |
| Total assets | $ 1,184,810 | $ 1,098,148 |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | $ 15,224 | $ 21,152 |
| Accrued liabilities | 35,465 | 33,878 |
| Accrued content acquisition costs | 93,723 | 89,972 |
| Accrued compensation | 60,353 | 43,871 |
| Deferred revenue | 28,359 | 32,355 |
| Other current liabilities | 20,993 | 32,848 |
| Total current liabilities | 254,117 | 254,076 |
| Long-term debt, net | 342,247 | 347,223 |
| Other long-term liabilities | 34,187 | 33,946 |
| Total liabilities | 630,551 | 635,245 |
| Stockholders' equity | | |
| Common stock: 235,162,757 shares issued and outstanding at December 31, 2016 and 240,334,808 at March 31, 2017 | 24 | 24 |
| Additional paid-in capital | 1,264,693 | 1,306,532 |
| Accumulated deficit | (709,636) | (843,057) |
| Accumulated other comprehensive loss | (822) | (596) |
| Total stockholders' equity | 554,259 | 462,903 |
| Total liabilities and stockholders' equity | $ 1,184,810 | $ 1,098,148 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**
**Condensed Consolidated Statements of Operations**
**(in thousands, except per share amounts)**
**(unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2017** |
| Revenue | | |
| Advertising | $ 220,308 | $ 223,308 |
| Subscription and other | 54,732 | 64,878 |
| Ticketing service | 22,265 | 27,818 |
| Total revenue | 297,305 | 316,004 |
| Cost of revenue | | |
| Cost of revenue—Content acquisition costs | 171,264 | 187,420 |
| Cost of revenue—Other | 21,195 | 25,532 |
| Cost of revenue—Ticketing service | 14,646 | 18,618 |
| Total cost of revenue | 207,105 | 231,570 |
| Gross profit | 90,200 | 84,434 |
| Operating expenses | | |
| Product development | 35,611 | 39,588 |
| Sales and marketing | 117,433 | 125,102 |
| General and administrative | 46,524 | 44,525 |
| Total operating expenses | 199,568 | 209,215 |
| Loss from operations | (109,368) | (124,781) |
| Interest expense | (6,175) | (7,381) |
| Other income, net | 862 | 229 |
| Total other expense, net | (5,313) | (7,152) |
| Loss before provision for income taxes | (114,681) | (131,933) |
| Provision for income taxes | (421) | (334) |
| Net loss | $ (115,102) | $ (132,267) |
| Weighted-average common shares outstanding used in computing basic and diluted net loss per share | 226,659 | 237,515 |
| Net loss per share, basic and diluted | $ (0.51) | $ (0.56) |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**
**Condensed Consolidated Statements of Comprehensive Loss**
**(in thousands)**
**(unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2017** |
| Net loss | $ (115,102) | $ (132,267) |
| Change in foreign currency translation adjustment | (233) | 191 |
| Change in net unrealized loss on marketable securities | 305 | 35 |
| Other comprehensive income | 72 | 226 |
| Total comprehensive loss | $ (115,030) | $ (132,041) |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**
**Condensed Consolidated Statements of Cash Flows**
**(in thousands)**
**(unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2017** |
| Operating activities | | |
| Net loss | $ (115,102) | $ (132,267) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 13,277 | 17,680 |
| Stock-based compensation | 38,655 | 29,618 |
| Amortization of premium on investments, net | 140 | 53 |
| Other operating activities | 895 | 1,665 |
| Amortization of debt discount | 4,434 | 4,886 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 38,514 | 44,941 |
| Prepaid content acquisition costs | (16,775) | (2,232) |
| Prepaid expenses and other assets | (2,967) | (5,579) |
| Accounts payable, accrued and other current liabilities | (3,467) | 13,192 |
| Accrued content acquisition costs | 14,152 | (3,762) |
| Accrued compensation | 2,597 | (13,207) |
| Other long-term liabilities | 659 | (244) |
| Deferred revenue | 7,640 | 3,996 |
| Reimbursement of cost of leasehold improvements | 4,244 | 5,236 |
| Net cash used in operating activities | (13,104) | (36,024) |
| Investing activities | | |
| Purchases of property and equipment | (14,371) | (1,980) |
| Internal-use software costs | (7,177) | (7,765) |
| Purchases of investments | (4,993) | — |
| Proceeds from maturities of investments | 8,332 | 11,220 |
| Payments related to acquisitions, net of cash acquired | (676) | — |
| Net cash provided by (used in) investing activities | (18,885) | 1,475 |
| Financing activities | | |
| Proceeds from employee stock purchase plan | 1,687 | 2,798 |
| Proceeds from exercise of stock options | 520 | 2,388 |
| Tax payments from net share settlements of restricted stock units | (1,294) | — |
| Net cash provided by financing activities | 913 | 5,186 |
| Effect of exchange rate changes on cash and cash equivalents | (137) | 300 |
| Net decrease in cash and cash equivalents | (31,213) | (29,063) |
| Cash and cash equivalents at beginning of period | 334,667 | 199,944 |
| Cash and cash equivalents at end of period | $ 303,454 | $ 170,881 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period for interest | $ 107 | $ 896 |
| Purchases of property and equipment recorded in accounts payable and accrued liabilities | $ 6,356 | $ 4,098 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**(unaudited)**

## 1. Description of Business and Basis of Presentation

*Pandora—Internet Radio and On-Demand Music Services*

Pandora is the world's most powerful music discovery platform, offering a personalized experience for each of our listeners wherever and whenever they want to listen to music—whether through earbuds, car speakers or live on stage. Pandora is available as an ad-supported service, a radio subscription service called Pandora Plus and an on-demand subscription service called Pandora Premium. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on our ad-supported service on these devices. We offer both local and national advertisers the opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue from subscriptions to Pandora Plus and Pandora Premium. We were incorporated as a California corporation in January 2000 and reincorporated as a Delaware corporation in December 2010. Our principal operations are located in the United States, and we also are located in Australia, New Zealand, Canada and the United Kingdom.

*Ticketing Service*

We operate our ticketing service through our subsidiary Ticketfly, a leading live events technology company that provides ticketing and marketing software and services for our clients, which are venues and event promoters across North America. Ticketfly's ticketing, digital marketing and analytics software helps promoters book talent, sell tickets and drive in-venue revenue, while Ticketfly's consumer tools help fans find and purchase tickets to events. Ticketfly's revenue primarily consists of service and merchant processing fees from ticketing operations.

As used herein, "Pandora," "we," "our," "the Company" and similar terms include Pandora Media, Inc. and its subsidiaries, unless the context indicates otherwise.

*Basis of Presentation*

The interim unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") along with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X, and include the accounts of Pandora and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of our management, the interim unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our financial position for the periods presented. These interim unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period and should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Certain changes in presentation have been made to conform the prior period presentation to current period reporting. We have reclassified prepaid content acquisition costs from the prepaid expenses and other assets line item to the prepaid content acquisition costs line item of our condensed consolidated statements of cash flows. We have also reclassified amortization of internal use-software costs from the product development and sales and marketing line items to the cost of revenue—other and general and administrative line items of our condensed consolidated statements of operations.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Estimates are used in several areas including, but not limited to determining accrued content acquisition costs, amortization of minimum guarantees under content acquisition agreements, selling prices for elements sold in multiple-element arrangements, the allowance for doubtful accounts, the fair value of stock options, market stock units ("MSUs"), stock-settled performance-based RSUs ("PSUs"), the Employee Stock Purchase Plan ("ESPP"), the provision for (benefit from) income taxes, the fair value of convertible debt, the fair value of acquired property and equipment, intangible assets and goodwill and the useful lives of acquired intangible assets. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements could be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result.

## 2. Summary of Significant Accounting Policies

Other than discussed below, there have been no material changes to our significant accounting policies as compared to those described in our Annual Report on Form 10-K for the year ended December 31, 2016.

*Stock-Based Compensation—Restricted Stock Units and Stock Options*

Stock-based awards granted to employees, including grants of restricted stock units ("RSUs") and stock options, are recognized as expense in our statements of operations based on their grant date fair value. We recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally three to four years. We estimate the fair value of RSUs at our stock price on the grant date. We generally estimate the grant date fair value of stock options using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model is affected by our stock price on the date of grant, the expected stock price volatility over the expected term of the award, which is based on projected employee stock option exercise behaviors, the risk-free interest rate for the expected term of the award and expected dividends.

Stock-based compensation expense is recorded in the statement of operations for only those stock-based awards that will vest. In the first quarter of 2017 we adopted new accounting guidance from the Financial Accounting Standards Board ("FASB") on stock compensation, or ASU 2016-09, as described in "Recently Adopted Accounting Standards" below and have elected to account for forfeitures as they occur, rather than estimating expected forfeitures.

Prior to the adoption of ASU 2016-09, we elected to use the "with and without" approach as described in Accounting Standards Codification 740—Income Taxes in determining the order in which tax attributes are utilized. As a result, we previously only recognized a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, we elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credit, through the statement of operations.

*Concentration of Credit Risk*

For the three months ended March 31, 2016 and 2017, we had no customers that accounted for more than 10% of our total revenue. As of December 31, 2016 and March 31, 2017, we had no customers that accounted for more than 10% of our total accounts receivable.

*Recently Issued Accounting Standards*

In May 2014, the Financial Accounting Standards Board ("the FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue. Under the guidance, revenue is recognized when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08") which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The standard is effective for public entities with annual and interim reporting periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. We expect to adopt ASU 2014-09 as of January 1, 2018 using the full retrospective method. We have completed our initial assessment and do not believe there will be a material impact to our condensed consolidated financial statements for the majority of our advertising and subscription revenue arrangements. We are currently continuing to evaluate the impact that the new principal versus agent guidance may have on certain of our advertising revenue arrangements and on our ticketing service revenue arrangements, and we are continuing to evaluate the expected impact on our business processes, systems and controls. We expect to complete our assessment of the effects of adopting ASU 2014-09 during 2017, and we will continue our evaluation of ASU 2014-09, including how it may impact new arrangements we enter into as well as new or emerging interpretations of the standard, through the date of adoption.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires lessees to put most leases on their balance sheets but recognize expenses on their income statement and eliminates the real estate-specific provisions for all entities. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We have completed our initial assessment and expect to early adopt ASU 2016-02 as of January 1, 2018 using the modified retrospective method. We expect the potential impact of adopting ASU 2016-02 to be material to our lease liabilities and assets on our consolidated balance sheets.

*Recently Adopted Accounting Standards*

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation—Stock Compensation (Topic 718) ("ASU 2016-09"). ASU 2016-09 requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. Additionally, it allows an employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. We adopted this guidance in the first quarter of 2017 using the modified retrospective transition method. Upon adoption, we recognized the previously unrecognized excess tax benefits as of January 1, 2017 through retained earnings. The previously unrecognized excess tax effects were recorded as a deferred tax asset, which was fully offset by a valuation allowance. As a result, the net impact had no effect on net deferred tax assets or our accumulated deficit as of January 1, 2017. Without the valuation allowance, the Company’s net deferred tax assets would have increased by approximately $142.0 million. Additionally, we have elected to account for forfeitures as they occur, rather than estimating expected forfeitures. The net cumulative effect of this change increased additional paid in capital as of January 1, 2017 by $1.2 million.

## 3. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments consisted of the following:

| | As of December 31, 2016 | As of March 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Cash and cash equivalents | | |
| Cash | $ 144,192 | $ 153,590 |
| Money market funds | 55,752 | 17,291 |
| Total cash and cash equivalents | $ 199,944 | $ 170,881 |
| Short-term investments | | |
| Corporate debt securities | $ 37,109 | $ 32,123 |
| Total short-term investments | $ 37,109 | $ 32,123 |
| Long-term investments | | |
| Corporate debt securities | $ 6,252 | $ — |
| Total long-term investments | $ 6,252 | $ — |
| Cash, cash equivalents and investments | $ 243,305 | $ 203,004 |

Our short-term investments have maturities of twelve months or less and are classified as available-for-sale. Our long-term investments have maturities of greater than twelve months and are classified as available-for-sale.

The following tables summarize our available-for-sale securities’ adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category as of December 31, 2016 and March 31, 2017.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

| | As of December 31, 2016 | | | |
|---|---|---|---|---|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | (in thousands) | | | |
| Money market funds | $ 55,752 | $ — | $ — | $ 55,752 |
| Corporate debt securities | 43,413 | 3 | (55) | 43,361 |
| Total cash equivalents and marketable securities | $ 99,165 | $ 3 | $ (55) | $ 99,113 |

| | As of March 31, 2017 | | | |
|---|---|---|---|---|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| | (in thousands) | | | |
| Money market funds | $ 17,291 | $ — | $ — | $ 17,291 |
| Corporate debt securities | 32,140 | 1 | (18) | 32,123 |
| Total cash equivalents and marketable securities | $ 49,431 | $ 1 | $ (18) | $ 49,414 |

The following table presents available-for-sale investments by contractual maturity date as ofDecember 31, 2016 and March 31, 2017.

| | As of December 31, 2016 | |
|---|---|---|
| | Adjusted Cost | Fair Value |
| | (in thousands) | |
| Due in one year or less | $ 92,914 | $ 92,861 |
| Due after one year through three years | 6,251 | 6,252 |
| Total | $ 99,165 | $ 99,113 |

| | As of March 31, 2017 | |
|---|---|---|
| | Adjusted Cost | Fair Value |
| | (in thousands) | |
| Due in one year or less | $ 49,431 | $ 49,414 |
| Total | $ 49,431 | $ 49,414 |

The following tables summarize our available-for-sale securities' fair value and gross unrealized losses aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2016 and March 31, 2017.

| | As of December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Twelve Months or Less | | More than Twelve Months | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (in thousands) | | | | | |
| Corporate debt securities | $ 34,257 | $ (52) | $ 4,099 | $ (3) | $ 38,356 | $ (55) |
| Total | $ 34,257 | $ (52) | $ 4,099 | $ (3) | $ 38,356 | $ (55) |

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

| | As of March 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Twelve Months or Less | | More than Twelve Months | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (in thousands) | | | | | |
| Corporate debt securities | $ 26,668 | $ (17) | $ 454 | $ (1) | $ 27,122 | $ (18) |
| Total | $ 26,668 | $ (17) | $ 454 | $ (1) | $ 27,122 | $ (18) |

Our investment policy requires investments to be investment grade, primarily rated "A1" by Standard & Poor’s or "P1" by Moody’s or better for short-term investments and rated "A" by Standard & Poor’s or "A2" by Moody’s or better for long-term investments, with the objective of minimizing the potential risk of principal loss. In addition, the investment policy limits the amount of credit exposure to any one issuer.

The unrealized losses on our available-for-sale securities as ofMarch 31, 2017 were primarily a result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. As of March 31, 2017, we owned 21 securities that were in an unrealized loss position. Based on our cash flow needs, we may be required to sell a portion of these securities prior to maturity. However, we expect to recover the full carrying value of these securities. As a result, no portion of the unrealized losses at March 31, 2017 is deemed to be other-than-temporary and the unrealized losses are not deemed to be credit losses. When evaluating the investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not we will be required to sell, the investment before recovery of the investment’s amortized cost basis. During the three months ended March 31, 2017, we did not recognize any impairment charges.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

## 4. Fair Value

We record cash equivalents and short-term investments at fair value. Fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are required to be disclosed by level within the following fair value hierarchy:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 — Inputs lack observable market data to corroborate management's estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

When determining fair value, whenever possible we use observable market data and rely on unobservable inputs only when observable market data is not available.

The fair value of these financial assets and liabilities was determined using the following inputs at December 31, 2016 and March 31, 2017:

| | As of December 31, 2016 | | |
|---|---|---|---|
| | Fair Value Measurement Using | | |
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
| | (in thousands) | | |
| Assets | | | |
| Corporate debt securities | $ — | $ 43,361 | $ 43,361 |
| Total assets measured at fair value | $ — | $ 43,361 | $ 43,361 |

| | As of March 31, 2017 | | |
|---|---|---|---|
| | Fair Value Measurement Using | | |
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
| | (in thousands) | | |
| Assets | | | |
| Corporate debt securities | $ — | $ 32,123 | $ 32,123 |
| Total assets measured at fair value | $ — | $ 32,123 | $ 32,123 |

Our other cash equivalents and short-term investments are classified as Level 2 within the fair value hierarchy because they are valued using professional pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets. As of December 31, 2016 and March 31, 2017, we held no Level 3 assets or liabilities.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

Our money market funds are no longer classified within the fair value hierarchy, as the fair values are measured at net asset value using the practical expedient. As of December 31, 2016 and March 31, 2017, the fair value of our money market funds were $55.8 million and $17.3 million.

Refer to Note 7, "Debt Instruments," for the carrying amount and estimated fair value of our convertible senior notes, which are not recorded at fair value as of March 31, 2017.

## 5. Commitments and Contingencies

*Minimum Guarantees and Other Provisions—Content Acquisition Costs*

Certain of our content acquisition agreements contain minimum guarantees, and require that we make upfront minimum guarantee payments. During the three months ended March 31, 2017, we prepaid $77.0 million in content acquisition costs related to minimum guarantees, which were offset by amortization of prepaid content acquisition costs of $28.5 million. As of March 31, 2017, we have future minimum guarantee commitments of $686.0 million, of which $278.6 million will be paid in 2017 and the remainder will be paid thereafter. On a quarterly basis, we record the greater of the cumulative actual content acquisition costs incurred or the cumulative minimum guarantee based on forecasted usage for the minimum guarantee period. The minimum guarantee period is the period of time that the minimum guarantee relates to, as specified in each agreement, which may be annual or a longer period. The cumulative minimum guarantee, based on forecasted usage considers factors such as listening hours, revenue, subscribers and other terms of each agreement that impact our expected attainment or recoupment of the minimum guarantees on a non-straight line basis.

Several of our content acquisition agreements also include provisions related to the royalty payments and structures of those agreements relative to other content licensing arrangements, which, if triggered, could cause our payments under those agreements to escalate. In addition, record labels, publishers and PROs with whom we have entered into direct license agreements have the right to audit our content acquisition payments, and any such audit could result in disputes over whether we have paid the proper content acquisition costs. However, as of March 31, 2017, we do not believe it is probable that these provisions of our agreements discussed above will, individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations or cash flows.

*Legal Proceedings*

We have been in the past, and continue to be, a party to various legal proceedings, which have consumed, and may continue to consume, financial and managerial resources. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Our management periodically evaluates developments that could affect the amount, if any, of liability that we have previously accrued and make adjustments as appropriate. Determining both the likelihood and the estimated amount of a loss requires significant judgment, and management's judgment may be incorrect. We do not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our business, financial position, results of operations or cash flows.

*Pre-1972 copyright litigation*

On October 2, 2014, Flo & Eddie Inc. filed a class action suit against Pandora Media Inc. in the federal district court for the Central District of California. The complaint alleges misappropriation and conversion in connection with the public performance of sound recordings recorded prior to February 15, 1972. On December 19, 2014, Pandora filed a motion to strike the complaint pursuant to California's Anti-Strategic Lawsuit Against Public Participation ("Anti-SLAPP") statute, which was appealed to the Ninth Circuit Court of Appeals. The district court litigation is currently stayed pending the Ninth Circuit's decision. On December 8, 2016, the Ninth Circuit heard oral argument on the Anti-SLAPP motion. On March 15, 2017, the Ninth Circuit requested certification to the California Supreme Court on the substantive legal questions and a response from the California Supreme Court is pending.

Between September 14, 2015 and October 19, 2015, Arthur and Barbara Sheridan filed separate class action suits against the Company in the federal district courts for the Northern District of California, District of New Jersey and Northern District of Illinois. The complaints allege a variety of violations of common law and state copyright statutes, common law misappropriation, unfair competition, conversion, unjust enrichment and violation of rights of publicity arising from allegations that we owe royalties for the public performance of sound recordings recorded prior to February 15, 1972. Currently, the action in California is stayed pending the Ninth Circuit's decision in Flo & Eddie, Inc. v. Pandora Media, Inc., and the actions in New Jersey and Illinois are stayed or otherwise suspended pending the Second Circuit's decision in Flo & Eddie et al. v. Sirius XM. On March 16, 2017, the Second Circuit issued the final mandate in Flo & Eddie et al. v. Sirius XM, and on April 6, 2017, the Sheridans voluntarily dismissed their action in the Southern District of New York.

On September 7, 2016, Ponderosa Twins Plus One et al. filed a class action suit against the Company alleging claims similar to that of Flo & Eddie, Inc. v. Pandora Media Inc. The action is currently stayed in the Northern District of California pending the Ninth Circuit's decision in Flo & Eddie, Inc. v. Pandora Media, Inc.

The outcome of any litigation is inherently uncertain. Except as noted above, we do not believe it is probable that the final outcome of the matters discussed above will, individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations or cash flows; however, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of each case or the costs of litigation, regardless of outcome, will not have a material adverse effect on our business.

*Indemnification Agreements, Guarantees and Contingencies*

In the ordinary course of business, we are party to certain contractual agreements under which we may provide indemnifications of varying scope, terms and duration to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. Such indemnification provisions are accounted for in accordance with guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. To date, we have not incurred, do not anticipate incurring and therefore have not accrued for, any costs related to such indemnification provisions.

While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any claims under indemnification arrangements will have a material adverse effect on our business, financial position, results of operations or cash flows.

## 6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for thethree months ended March 31, 2017, are as follows:

| | Goodwill (in thousands) |
|---|---|
| Balance as of December 31, 2016 | $ 306,691 |
| Effect of currency translation adjustment and immaterial adjustments to fair value | (270) |
| Balance as of March 31, 2017 | $ 306,421 |

The following summarizes information regarding the gross carrying amounts and accumulated amortization of intangible assets.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

| | As of December 31, 2016 | | | As of March 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| | | (in thousands) | | | (in thousands) | |
| Finite-lived intangible assets | | | | | | |
| Patents | $ 8,030 | $ (2,556) | $ 5,474 | $ 8,030 | $ (2,740) | $ 5,290 |
| Developed technology | 56,162 | (13,599) | 42,563 | 56,162 | (16,681) | 39,481 |
| Customer relationships—clients | 37,399 | (5,487) | 31,912 | 37,399 | (6,664) | 30,735 |
| Customer relationships—users | 1,940 | (1,288) | 652 | 1,940 | (1,531) | 409 |
| Trade names | 11,735 | (2,104) | 9,631 | 11,735 | (2,555) | 9,180 |
| Total finite-lived intangible assets | $ 115,266 | $ (25,034) | $ 90,232 | $ 115,266 | $ (30,171) | $ 85,096 |
| Indefinite-lived intangible assets | | | | | | |
| FCC license - Broadcast Radio | $ 193 | $ — | $ 193 | $ 193 | $ — | $ 193 |
| Total intangible assets | $ 115,459 | $ (25,034) | $ 90,425 | $ 115,459 | $ (30,171) | $ 85,288 |
| Note: Amounts may not recalculate due to rounding | | | | | | |

Amortization expense of intangible assets was $5.1 million and $5.1 million for the three months ended March 31, 2016 and 2017.

The following is a schedule of future amortization expense related to finite-lived intangible assets as of March 31, 2017.

| | As of March 31, 2017 |
|---|---|
| | (in thousands) |
| Remainder of 2017 | $ 14,978 |
| 2018 | 17,654 |
| 2019 | 17,129 |
| 2020 | 15,896 |
| 2021 | 6,690 |
| Thereafter | 12,749 |
| Total future amortization expense | $ 85,096 |

## 7. Debt Instruments

Long-term debt, net consisted of the following:

| | As of December 31, 2016 | As of March 31, 2017 |
|---|---|---|
| | (in thousands) | |
| 1.75% convertible senior notes due 2020 | $ 345,000 | $ 345,000 |
| Credit facility | 90,000 | 90,000 |
| Unamortized discount and deferred issuance costs | (92,753) | (87,777) |
| Long-term debt, net | $ 342,247 | $ 347,223 |

*Convertible Debt Offering*

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

On December 9, 2015, we completed an unregistered Rule 144A offering for the issuance of $345.0 million aggregate principal amount of our 1.75% Convertible Senior Notes due 2020 (the "Notes"). In connection with the issuance of the Notes, we entered into capped call transactions with the initial purchaser of the Notes and an additional financial institution ("capped call transactions"). The net proceeds from the sale of the Notes were approximately $336.5 million, after deducting the initial purchasers' fees and other estimated expenses. We used approximately $43.2 million of the net proceeds to pay the cost of the capped call transactions.

The Notes are unsecured, senior obligations of Pandora, and interest is payable semi-annually at a rate of 1.75% per annum. The Notes will mature on December 1, 2020, unless earlier repurchased or redeemed by Pandora or converted in accordance with their terms prior to such date. Prior to July 1, 2020, the Notes are convertible at the option of holders only upon the occurrence of specified events or during certain periods as further described in Note 7 "Debt Instruments" in our Annual Report on Form 10-K for the year ended December 31, 2016; thereafter, until the second scheduled trading day prior to maturity, the Notes will be convertible at the option of holders at any time.

The Notes were separated into debt and equity components and assigned a fair value. The value assigned to the debt component is the estimated fair value as of the issuance date of similar debt without the conversion feature. The difference between the cash proceeds and this estimated fair value represents the value which has been assigned to the equity component and recorded as a debt discount. The debt discount is being amortized using the effective interest method over the period from the date of issuance through the December 1, 2020 maturity date. The valuation of the Notes is further described in Note 7 "Debt Instruments" in our Annual Report on Form 10-K for the year ended December 31, 2016.

The following table outlines the effective interest rate, contractually stated interest expense and costs related to the amortization of the discount for the Notes:

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| | (in thousands except for effective interest rate) | |
| Effective interest rate | 10.18 % | 10.18 % |
| Contractually stated interest expense | $ 1,509 | $ 1,514 |
| Amortization of discount | $ 4,434 | $ 4,886 |

The total estimated fair value of the Notes as of March 31, 2017 was $333.7 million. The fair value was determined using a methodology that combines direct market observations with quantitative pricing models to generate evaluated prices. We consider the fair value of the Notes to be a Level 2 measurement due to the limited trading activity of the Notes.

The closing price of our common stock was $11.81 on March 31, 2017, which was less than the initial conversion price for the Notes of approximately $16.42 per share. As such, the if-converted value of the Notes was less than the principal amount of $345.0 million.

*Credit Facility*

We are party to a $120.0 million credit facility with a syndicate of financial institutions, which expires on September 12, 2018. In September 2016, we borrowed $90.0 million from the credit facility to enhance our working capital position. The amount borrowed is included in long-term debt on our balance sheet. Interest is payable quarterly at the applicable annual interest rate of 3.81% through September 2017. The applicable interest rate will be adjusted in September 2017.

As of March 31, 2017, we had $1.2 million in letters of credit outstanding and $28.8 million of available borrowing capacity under the credit facility. We are in compliance with all financial covenants associated with the credit facility as of March 31, 2017.

## 8. Stock-based Compensation Plans and Awards

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

*ESPP*

The ESPP allows eligible employees to purchase shares of our common stock through payroll deductions of up to15% of their eligible compensation. The ESPP provides for six-month offering periods, commencing in February and August of each year.

We estimate the fair value of shares to be issued under the ESPP on the first day of the offering period using the Black-Scholes valuation model. The determination of the fair value is affected by our stock price on the first date of the offering period, as well as other assumptions including the risk-free interest rate, the estimated volatility of our stock price over the term of the offering period, the expected term of the offering period and the expected dividend rate. Stock-based compensation expense related to the ESPP is recognized on a straight-line basis over the offering period. Forfeitures are recognized as they occur.

The following assumptions for the Black-Scholes option pricing model were used to determine the per-share fair value of shares to be granted under the ESPP:

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| Expected life (in years) | 0.5 | 0.5 |
| Risk-free interest rate | 0.24 - 0.41% | 0.44 - 0.65% |
| Expected volatility | 41% | 39 - 52% |
| Expected dividend yield | 0% | 0% |

During the three months ended March 31, 2016 and 2017, we withheld $1.7 million and $2.8 million in contributions from employees and recognized $0.6 million and $0.9 million of stock-based compensation expense related to the ESPP, respectively. In the three months ended March 31, 2016 and 2017, 611,348 and 547,765 shares of common stock were issued under the ESPP.

*Employee Stock-Based Awards*

Our 2011 Equity Incentive Plan (the "2011 Plan") provides for the issuance of stock options, restricted stock units and other stock-based awards to our employees. The 2011 Plan is administered by the compensation committee of our board of directors.

*Stock options*

We measure stock-based compensation expense for stock options at the grant date fair value of the award and recognize expense on a straight-line basis over the requisite service period, which is generally the vesting period. We estimate the fair value of stock options using the Black-Scholes option-pricing model. During the three months ended March 31, 2016 and 2017, we recorded stock-based compensation expense from stock options of approximately $6.8 million and $1.9 million.

The per-share fair value of each stock option was determined on the grant date using the Black-Scholes option pricing model using the following assumptions:

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| Expected life (in years) | N/A | 5.93 - 6.05 |
| Risk-free interest rate | N/A | 2.03 - 2.18% |
| Expected volatility | N/A | 61% |
| Expected dividend yield | N/A | 0% |

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

There were no options granted in the three months ended March 31, 2016.

*RSUs*

The fair value of RSUs is expensed ratably over the vesting period. RSUs typically have an initial annual cliff vest and then vest quarterly thereafter over the service period, which is generally three to four years. During the three months ended March 31, 2016 and 2017, we recorded stock-based compensation expense from RSUs of approximately $31.0 million and $25.4 million.

*MSUs*

In March 2015, the compensation committee of the board of directors granted performance awards consisting of market stock units to certain key executives under our 2011 Plan.

MSUs granted in March 2015 are earned as a function of Pandora's TSR performance measured against that of the Russell 2000 Index across three performance periods:

- One-third of the target MSUs are eligible to be earned for a performance period that is the first calendar year of the MSU grant (the "One-Year Performance Period");
- One-third of the target MSUs are eligible to be earned for a performance period that is the first two calendar years of the MSU grant (the "Two-Year Performance Period"); and
- Any remaining portion of the total potential MSUs are eligible to be earned for a performance period that is the entire three calendar years of the MSU grant (the "Three-Year Performance Period").

For each performance period, a "performance multiplier" is calculated by comparing Pandora's TSR for the period to the Russell 2000 Index TSR for the same period, using the average adjusted closing stock price of Pandora stock, and the Russell 2000 Index, for ninety calendar days prior to the beginning of the performance period and the last ninety calendar days of the performance period. In each period, the target number of shares will vest if the Pandora TSR is equal to the Russell 2000 Index TSR. For each percentage point that the Pandora TSR falls below the Russell 2000 Index TSR for the period, the performance multiplier is decreased by three percentage points. The performance multiplier is capped at 100% for the One-Year and Two-Year Performance Periods. However, the full award is eligible for a payout up to 200% of target, less any shares earned in prior periods, in the Three-Year Performance Period. Specifically, for each percentage point that the Pandora TSR exceeds the Russell 2000 Index TSR for the Three-Year Performance Period, the performance multiplier is increased by 2%. As such, the ability to exceed the target number of shares is determined exclusively with respect to Pandora's three-year TSR during the term of the award.

We have determined the grant-date fair value of the MSUs using a Monte Carlo simulation performed by a third-party valuation firm. We recognize stock-based compensation for the MSUs over the requisite service period, which is approximately three years, using the accelerated attribution method.

There were no MSUs granted in the three months ended March 31, 2016 or 2017. During the three months ended March 31, 2016 and 2017, we recorded stock-based compensation expense from MSUs of approximately $0.2 million and $0.3 million.

In February 2016 and January 2017, the compensation committee of the board of directors certified the results of the One-Year Performance Period and Two-Year Performance Period of the 2015 MSU grant, which concluded December 31, 2015 and 2016. During the One-Year Performance Period, our relative TSR declined 26 percentage points relative to the Russell 2000 Index TSR for the period, which resulted in the vesting of the One-Year Performance Period at 22% of the one-third vesting opportunity for the period. During the Two-Year Performance Period, our relative TSR declined 48 percentage points relative to the Russell 2000 Index TSR for the period, which resulted in vesting of the Two-Year Performance Period at 0% of the one-third vesting opportunity for the period.

*PSUs*

In April and October 2016, the compensation committee of the board of directors granted 2016 Performance Awards consisting of stock-settled performance-based RSUs to certain key executives under our 2011 Plan.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

PSUs granted in April and October 2016 have a vesting period that includes a four-year service period, during which one fourth of the awards will vest after one year and the remainder will vest quarterly thereafter. The PSUs are earned when our trailing average ninety-day stock price is equal to or greater than $20.00. If the trailing average ninety-day stock price does not equal or exceed $20.00 on the applicable vesting date, then the portion of the award that was scheduled to vest on such vesting date shall not vest but shall vest on the next vesting date on which the trailing average ninety-day stock price equals or exceeds $20.00. Any portion of the award that remains unvested as of the final vesting date shall be canceled and forfeited.

We have determined the grant-date fair value of the PSUs granted in April and October 2016 using a Monte Carlo simulation performed by a third-party valuation firm. We recognize stock-based compensation for the PSUs over the requisite service period, which is approximately four years, using the accelerated attribution method.

There were no PSUs granted in the three months ended March 31, 2016 or 2017. During the three months ended March 31, 2017, we recorded stock-based compensation expense from PSUs of approximately $1.1 million. There was no stock-based compensation expense from PSUs in the three months ended March 31, 2016.

*Stock-based Compensation Expense*

Stock-based compensation expense related to all employee and non-employee stock-based awards was as follows:

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| | (in thousands) | |
| Stock-based compensation expense | | |
| Cost of revenue—Other | $ 1,477 | $ 815 |
| Cost of revenue—Ticketing service | 60 | 29 |
| Product development | 8,501 | 7,915 |
| Sales and marketing | 13,613 | 13,496 |
| General and administrative | 15,004 | 7,363 |
| Total stock-based compensation expense | $ 38,655 | $ 29,618 |

In the three months ended March 31, 2016, we recorded stock-based compensation expense of $6.8 million related to accelerated awards in connection with executive severance. This amount is included in the general and administrative line item of our condensed consolidated statements of operations.

## 9. Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period.

Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, restricted stock units, market stock units and performance-based RSUs, to the extent dilutive. Basic and diluted net loss per share were the same for the three months ended March 31, 2016 and 2017, as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The following table sets forth the computation of historical basic and diluted net loss per share:

| | Three months ended March 31, 2016 | Three months ended March 31, 2017 |
|---|---|---|
| | (in thousands except per share amounts) | |
| Numerator | | |
| Net loss | $ (115,102) | $ (132,267) |
| Denominator | | |
| Weighted-average common shares outstanding used in computing basic and diluted net loss per share | 226,659 | 237,515 |
| Net loss per share, basic and diluted | $ (0.51) | $ (0.56) |

The following potential common shares outstanding were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive:

| | As of March 31, 2016 | As of March 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Options to purchase common stock | 12,627 | 9,367 |
| Restricted stock units | 22,947 | 23,830 |
| Performance awards* | 776 | 2,056 |
| Shares issuable pursuant to the ESPP | 743 | 604 |
| Total common stock equivalents | 37,093 | 35,857 |

*Includes potential common shares outstanding for MSUs and PSUs

On December 9, 2015, we completed an offering of our1.75% convertible senior notes due 2020. Under the treasury stock method, the Notes will generally have a dilutive impact on earnings per share if our average stock price for the period exceeds approximately $16.42 per share of our common stock, the conversion price of the Notes. For the period from the issuance of the offering of the Notes through March 31, 2017, the conversion feature of the Notes was anti-dilutive, as our average stock price was less than the conversion price.

In connection with the pricing of the Notes, we entered into capped call transactions which increase the effective conversion price of the Notes, and are designed to reduce potential dilution upon conversion of the Notes. Since the beneficial impact of the capped call is anti-dilutive, it is excluded from the calculation of earnings per share. Refer to Note 7 "Debt Instruments" for further details regarding our Notes.

**Pandora Media, Inc.**
**Notes to Condensed Consolidated Financial Statements - Continued**
**(unaudited)**

## 10. Segment Data and Revenue by Geographic Area

*Segment Data*

Our two operating segments, which are the same as our two reportable segments, are as follows:

*Pandora—Internet radio and on-demand music services*

Pandora is the world's most powerful music discovery platform, offering a personalized experience for each of our listeners wherever and whenever they want to listen to music—whether through earbuds, car speakers or home audio/video equipment. Pandora is available as an ad-supported service, a radio subscription service called Pandora Plus and an on-demand subscription service called Pandora Premium. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on our ad-supported service on these devices. We offer both local and national advertisers the opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue from subscriptions to Pandora Plus and Pandora Premium.

*Ticketing service*

We operate our ticketing service through our subsidiary Ticketfly, a leading live events technology company that provides ticketing and marketing software and services for clients, which are venues and event promoters, across North America. Ticketfly's ticketing, digital marketing and analytics software helps promoters book talent, sell tickets and drive in-venue revenue, while Ticketfly's consumer tools help fans find and purchase tickets to events. Tickets are primarily sold through the Ticketfly platform but are also sold through other channels such as box offices.

The measurement basis of segment profit or loss is gross profit, as operating expenses and working capital are all managed on an aggregate basis. Total segment assets have not been presented as segment assets are not reported to, used by management to allocate resources to or used to assess performance of the segments.

The following table provides the financial performance of our reportable segments, including a reconciliation of gross profit from segment operations to gross profit from total operations:

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2017 | | |
| | Pandora | Ticketfly | Total | Pandora | Ticketfly | Total |
| | (in thousands) | | | (in thousands) | | |
| Revenues | $ 275,040 | $ 22,265 | $ 297,305 | $ 288,186 | $ 27,818 | $ 316,004 |
| Cost of revenues | 192,459 | 14,646 | 207,105 | 212,952 | 18,618 | 231,570 |
| Gross profit | $ 82,581 | $ 7,619 | $ 90,200 | $ 75,234 | $ 9,200 | $ 84,434 |
| Operating and other expenses | | | (205,302) | | | (216,701) |
| Net loss | | | $ (115,102) | | | $ (132,267) |

The following table provides depreciation and amortization costs included in costs of revenues by segment included in the consolidated statements of operations:

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2017 | | |
| | Pandora | Ticketfly | Total | Pandora | Ticketfly | Total |
| | (in thousands) | | | (in thousands) | | |
| Depreciation and amortization | $ 2,146 | $ 1,433 | $ 3,579 | $ 3,347 | $ 1,430 | $ 4,777 |

*Revenue by Geographic Area*

The following table sets forth revenue by geographic area:

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| | (in thousands) | |
| Revenue by geographic area | | |
| United States | $ 293,260 | $ 311,295 |
| International | 4,045 | 4,709 |
| Total revenue | $ 297,305 | $ 316,004 |

No individual foreign country represented a material portion of our consolidated revenue during the three months ended March 31, 2016 and 2017.

### 11. Restructuring Charges

On January 12, 2017, we announced a reduction in force plan affecting approximately 7% of our U.S. employee base, excluding Ticketfly. We incurred approximately $6.2 million of cash expenditures, substantially all of which are related to employee severance and benefits costs. Total reduction in force expenses were $5.7 million, which was lower than cash reduction in force costs due to a credit related to non-cash stock-based compensation expense reversals for unvested equity awards. The reduction in force plan was substantially completed in the three months ended March 31, 2017. The remaining accrued liability for payments related to the reduction in force was not material as of March 31, 2017.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

*You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").*

*This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act, including, but not limited to, statements regarding our expectations, beliefs, intentions,* *strategies, future operations, future financial position, future revenue, projected expenses, plans and objectives of management and economic, competitive and technological trends. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "continue," "objective," or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. We qualify all of our forward-looking statements by these cautionary statements. These and other factors could cause our results to differ materially from those expressed in this Quarterly Report on Form 10-Q.*

*As used herein, "Pandora," the "Company," "we," "our," and similar terms refer to Pandora Media, Inc., unless the context indicates otherwise.*

*"Pandora" and other trademarks of ours appearing in this report are our property. This report may contain additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.*

**Overview**

*Pandora—Internet Radio and On-Demand Music Services*

Pandora is the world's most powerful music discovery platform, offering a personalized experience for each of our listeners wherever and whenever they want to listen to music—whether through earbuds, car speakers or home audio/video equipment. Our vision is to be the definitive source of music discovery and enjoyment for billions. Pandora is available as an ad-supported service, a radio subscription service called Pandora Plus and an on-demand subscription service called Pandora Premium. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on our ad-supported service on these devices. We offer both local and national advertisers the opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue from subscriptions to Pandora Plus and Pandora Premium. Founded by musicians, Pandora also empowers artists with valuable data and tools to help grow their careers and connect with their fans.

At the heart of our service is our set of proprietary personalization technologies, including the Music Genome Project and our playlist generating algorithms. The Music Genome Project is a database of over 1,500,000 uniquely analyzed songs from over 200,000 artists, spanning over 650 genres and sub-genres, which our team of trained musicologists has developed one song at a time by evaluating and cataloging each song's particular attributes. The Music Genome Project database is a subset of our full catalog available to be played. When a listener enters a single song, artist, comedian or genre to start a station, the Pandora service instantly generates a station that plays music or comedy we think that listener will enjoy. Over time, our service has evolved by using data science to further tailor the listener experience based on listener reactions to the recordings we pick. Listeners also have the ability to add variety to and rename stations, which further allows for the personalization of our service. We have integrated this technology into Pandora Premium, giving listeners the ability to search and play any track or album as well as offering unique playlist features tailored to each listener's distinct preferences.

For the three months ended March 31, 2017, we streamed 5.21 billion hours of radio, and as of March 31, 2017, we had 76.7 million active users during the prior 30-day period and 4.71 million paid subscribers. Since we launched the Pandora service in 2005 our listeners have created over 11 billion stations.

We currently provide the Pandora service through three models:

- *Ad-Supported Service*. Our ad-supported Pandora service allows listeners to access our music and comedy catalogs and personalized playlist generating system for free across all of our delivery platforms. Listeners can obtain more features, such as skips and the ability to replay tracks, by watching an advertisement.

- *Subscription Service—Pandora Plus.* Pandora Plus is a paid, ad-free subscription version of the Pandora service that includes replays, additional skipping, offline listening, higher quality audio on supported devices and longer timeout-free listening.

- *Subscription Service—Pandora Premium.* Our on-demand subscription service, Pandora Premium, launched to select listeners on March 15, 2017, with general availability in the United States on April 18, 2017. Pandora Premium is a paid, ad-free version of the Pandora service that offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generates playlists based on the user's listening activity. The features of Pandora Plus are also included in Pandora Premium.

A key element of our strategy is to make the Pandora service available everywhere that there is internet connectivity. To this end, we make the Pandora service available through a variety of distribution channels. In addition to streaming our service to computers, we have developed Pandora mobile device applications ("apps") for smartphones and mobile operating systems, such as the iPhone and Android and for tablets including the iPad and Android tablets. We distribute those mobile apps free to listeners via app stores.

The development and launch of Pandora Plus and Pandora Premium have and will continue to require significant engineering effort, as well as marketing, and other resources. In addition, to support the launch of these services we have entered into direct license agreements with major and independent record labels, some of which include substantial minimum guarantee payments. In order for Pandora Plus and Pandora Premium to be successful, we will need to attract subscribers to these new service offerings. The market for subscription-based music services, including on-demand services, is intensely competitive, and our ability to realize a return on our investments in these new service offerings will depend on our ability to leverage the existing audience of our ad-supported service, our brand awareness and our ability to deliver differentiated subscription services with features and functionality that listeners find attractive. Refer to our discussion of these matters in Item 1A—"Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

*Ticketing Service*

We operate our ticketing service through our subsidiary Ticketfly, a leading live events technology company that provides ticketing and marketing software and services for our clients, which are venues and event promoters, across North America. Ticketfly's ticketing, digital marketing and analytics software helps promoters book talent, sell tickets and drive in-venue revenue, while Ticketfly's consumer tools help fans find and purchase tickets to events. Tickets are primarily sold through the Ticketfly platform but are also sold through other channels such as box offices. In the three months ended March 31, 2017, Ticketfly had approximately 44 thousand live events on sale, for which approximately 4.8 million tickets, excluding box office sales, were sold to approximately2.0 million unique ticket buyers, which resulted in more than $215.0 million in gross transaction value, excluding box office sales.

Ticketfly's platform provides ticketing and marketing services for venues and event promoters across North America and makes it easy for fans to find and purchase tickets to events, and also gives artists a means to more effectively promote their events. We also connect our listeners to events through promotion on our internet radio service.

**Recent Events**

*Pandora Premium*

Our on-demand subscription service, Pandora Premium, launched to select listeners on March 15, 2017, with general availability in the United States on April 18, 2017. Pandora Premium is a paid version of the Pandora service that offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generates playlists based on the user's listening activity.

**Factors Affecting our Business Model**

*Content Acquisition Costs*

We pay content acquisition costs based on the terms of direct license agreements with major and independent music labels and distributors for the significant majority of the sound recordings we stream on our ad-supported service, Pandora Plus and Pandora Premium. Depending on the applicable service, these license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount, all generally subject to certain discounts. Certain of these license agreements require minimum guarantee payments, some of which are paid in advance.

If we have not entered into a direct license agreement with the copyright owner of a particular sound recording that is streamed on our services, we stream that sound recording pursuant to the statutory license and pay the applicable rates set by the Copyright Royalty Board on December 16, 2015 (the "Web IV Proceeding"). The rates for non-subscription services, such as our ad-supported service, were set at $0.0017 per play and the rates for subscription services, such as Pandora Plus, were set at $0.0022 per play beginning in 2016. Sound recordings streamed under the statutory license and paid at the Web IV Proceeding rates can only be played in radio mode on our services—these sound recordings cannot be played on-demand or offline and are not eligible for replay or additional skips.

Content acquisition costs for musical works are negotiated with and paid to performing rights organizations ("PROs") such as ASCAP, BMI, SESAC and Global Music Rights and directly to publishing companies. Content acquisition costs for the streaming of musical works on our ad-supported service are calculated such that each copyright holder receives its usage-based and ownership-based share of a royalty pool equal to 20% of the content acquisition costs paid by us for sound recordings. Content acquisition costs for the streaming of musical works on our subscription services are equal to the rates determined in accordance with the statutory license set forth in 17 U.S.C. §115 ("Section 115").

The current rate structure for the statutory license for reproduction rights under Section 115 expires at the end of 2017. We are currently one of five commercial music service operators (along with Amazon, Apple, Google and Spotify) participating in rate-setting proceedings in which three judges of the CRB will determine the Section 115 rates for calendar years 2018 to 2022 (the "Phonorecords III Proceedings"). The Nashville Songwriters Association International, the National Association of Music Publishers and George Johnson Music Publishing are also participating in the Phonorecords III Proceedings. A trial before the CRB concluded in April 2017, and the CRB is expected to render a decision prior to the end of 2017. The rates established by the CRB in the Phonorecords III Proceedings may be higher, lower or the same as the rates currently in effect.

The Phonorecords III Proceedings are important to us because our direct licenses with music publishers reference the Section 115 rates. As a result, any increase in the Section 115 rates would increase our content acquisition costs, which, if such increase were substantial, could materially harm our financial condition and hinder our ability to provide interactive features in our services, or cause one or more of our subscription services to not be economically viable.

*Ad-Supported Service*

Our ad-supported service is monetized through the sale of display, audio and video advertisements to national, regional and local advertisers. We compete with digital advertising networks such as Google and Facebook, other digital media companies and local broadcast radio stations in our advertising business.

Our total number of listener hours is a key driver for both advertising revenue generation opportunities and content acquisition costs, which are the largest component of our ad-related expenses.

- *Advertising Revenue.* Listener hours define the number of opportunities we have to sell advertisements, which we refer to as inventory. Our ability to attract advertisers depends in large part on our ability to offer sufficient inventory within desired demographics.

- *Cost of Revenue—Content Acquisition Costs—Ad-Supported Service.* We pay content acquisition costs to the copyright owners and performers, or their agents, of each sound recording that we stream, as well as to the publishers and songwriters, or their agents, for the musical works embodied in each of those sound recordings, subject to certain exclusions. The majority of the content acquisition costs related to our ad-supported service are driven by direct license agreements with major and independent labels and distributors, as discussed above in "Factors Affecting Our Business Model—Content Acquisition Costs". Certain of these license agreements include minimum guarantee payments, some of which are paid in advance.

As a result of the structure of our license agreements, our ability to achieve and sustain profitability and operating leverage on our ad-supported service depends on our ability to increase our revenue per thousand listener hours of streaming through increased advertising revenue across all of our delivery platforms.

*Subscription Services*

We monetize our subscription services through subscription payments made by users of the services. We drive subscriber growth in our subscription services by providing the world's most powerful music discovery platform, offering a personalized experience for each of our listeners. In addition, we invest in marketing and free-trials to promote our service.

Our total number of paid subscriptions is a key driver for both subscription revenue and content acquisition costs related to our subscription services, which is the largest component of our subscription-related expenses. In order to drive greater subscription revenue, we must increase the number of new subscribers to our subscription services and minimize the number of current subscribers who discontinue their subscriptions.

- *Subscription Revenue*. Our subscription revenue depends upon the number of paid subscriptions we are able to sell and the price that our subscribers pay for those subscriptions. Our ability to attract subscribers depends in large part on our ability to offer features and functionality on our subscription services that are valued by consumers within desired demographics, on terms that are attractive to those consumers, and still enable us to maintain adequate gross margins.

- *Cost of Revenue—Content Acquisition Costs—Subscription Service.* We pay content acquisition costs to the copyright owners, performers, songwriters, or their agents, subject to certain exclusions. The majority of our content acquisition costs related to our subscription service are generally driven by direct license agreements with major and independent labels and distributors, PROs and publishers, as discussed above in "Factors Affecting Our Business Model—Content Acquisition Costs". Certain of these license agreements include minimum guarantee payments, some of which are paid in advance.

Given the structure of our license agreements for our subscription services, the majority of our content acquisition costs increase as subscription revenue increases and are subject to minimum guarantee payments. As such, our ability to achieve and sustain profitability and operating leverage on our subscription services depends on our ability to increase our revenue through increased paid subscriptions on terms that maintain an adequate gross margin. Refer to our discussion of these matters in Item 1A—"Risk Factors" below and in our Annual Report on Form 10-K for the year ended December 31, 2016.

**Key Metrics**

In the quarter ended December 31, 2016, we began reporting updated key metrics on a prospective basis as a result of a change in our service offerings. We discontinued our previous key metrics as of October 1, 2016. Certain of our new key metrics are not comparable to prior periods given the lack of history of our new service offerings. As such, these metrics have not been presented for, nor compared against, these periods. Refer to the "Key Metrics" section of Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016 for a summary of the changes in our key metrics.

The below key metrics do not include amounts related to our ticketing service, unless otherwise specifically stated.

*Subscription Services—Total*

*Paid Subscribers*

Paid subscribers are defined as the number of distinct users that have current, paid access to our subscription service as of the beginning or the end of the period. Net new subscribers are defined as the net number of distinct new users that have paid for access to our subscription services in the period. We track paid subscribers because it is a key indicator of the growth of our subscription services.

The below table sets forth the detail of the change in paid subscribers in the three months ended March 31, 2017, which includes paid subscribers as of December 31, 2016, net new subscribers during the three months ended March 31, 2017 and paid subscribers as of March 31, 2017.

| | Subscribers (in millions) |
|---|---|
| Paid subscribers as of December 31, 2016 | 4.39 |
| Net new paid subscribers | 0.32 |
| Paid subscribers as of March 31, 2017 | 4.71 |

*Penetration rate*

Penetration rate is defined as paid subscribers divided by total trailing 30-day active users. We track penetration rate as it is an indicator of the relative scale of our subscriber base. Our penetration rate as of March 31, 2017 was 6.1%.

*Average revenue per paid subscriber ("ARPU") and average licensing costs per paid subscriber ("LPU")*

ARPU is defined as average monthly revenue per paid subscriber on our subscription services. LPU is defined as average monthly content acquisition costs per paid subscriber on our subscription services. We believe ARPU to be the central top-line indicator for evaluating the results of our monetization efforts on our subscription services. We track LPU because it is a key measure of our ability to manage costs for our subscription services. The below table sets forth our ARPU and LPU for our subscription services for the three months ended March 31, 2017.

| | Three months ended March 31, 2017 | |
|---|---|---|
| | ARPU | LPU |
| Subscription services | $ 4.76 | $ 2.96 |

*Total Service*

*Listener hours*

We track listener hours because it is a key indicator of the growth of our business and the engagement of our listeners. We include listener hours related to our non-radio content offerings in the definition of listener hours. These offerings include non-music content such as podcasts, as well as custom music content such as Pandora Premieres and artist mixtapes. We calculate listener hours based on the total bytes served for each track that is requested and served from our servers, as measured by our internal analytics systems, whether or not a listener listens to the entire track. For non-music content such as podcasts, episodes are divided into approximately track-length parts, which are treated as tracks under this definition. To the extent that third-party measurements of listener hours are not calculated using a similar server-based approach, the third-party measurements may differ from our measurements.

The table below sets forth our total listener hours for the three months ended March 31, 2016 and 2017.

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| Service | (in billions) | |
| Advertising | 4.85 | 4.38 |
| Subscription | 0.67 | 0.83 |
| Total | 5.52 | 5.21 |

*Active users*

We track the number of active users as an additional indicator of the breadth of audience we are reaching at a given time. We define active users as the number of distinct registered users, including subscribers, that have requested audio from our servers within the trailing 30 days to the end of the final calendar month of the period. The number of active users may overstate the number of unique individuals who actively use our service within a month as one individual may register for, and use, multiple accounts. We include active users who only request non-radio content offerings in the definition of active users.

The table below sets forth our total active users as of March 31, 2016 and 2017.

| | As of March 31, | |
|---|---|---|
| | 2016 | 2017 |
| | (in millions) | |
| Active users—all services | 79.4 | 76.7 |

*Advertising-based service*

*Advertising Revenue per Thousand Listener Hours ("ad RPMs")*

We track ad RPMs for our non-subscription, ad-supported service because it is a key indicator of our ability to monetize advertising inventory created by our listener hours. We focus on ad RPMs across all of our delivery platforms. We believe ad RPMs to be the central top-line indicator for evaluating the results of our monetization efforts. Ad RPMs are calculated by dividing advertising revenue by the number of thousands of listener hours of our advertising-based service.

*Advertising LPMs*

We track advertising LPMs for our non-subscription, ad-supported service across all delivery platforms. Prior to September 15, 2016, advertising LPMs were relatively fixed content acquisition costs with scheduled annual rate adjustments, per thousands of listener hours. Subsequent to September 15, 2016, LPMs are our content acquisition costs as calculated either under the rates set by our license agreements with record labels, PROs and music publishers or under the Web IV rates if we have not entered into a license agreement with the copyright owner of a particular sound recording, in each case per thousands of listener hours.

Period-to-period results should not be regarded as precise nor can they be relied upon as indicative of results for future periods. In addition, as our business matures and in response to technological evolutions, we anticipate that the relevant indicators we monitor for evaluating our business may change.

The table below sets forth our RPMs and LPMs for our ad-supported service for the three months ended March 31, 2016 and 2017.

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2017 | |
| | RPM* | LPM | RPM* | LPM |
| Advertising | $ 45.47 | $ 30.48 | $ 50.87 | $ 33.44 |

*The calculation of RPMs does not include revenue generated by Ticketfly or Next Big Sound.

*Advertising RPMs*

For the three months ended March 31, 2017 compared to 2016, the increase in ad RPMs was primarily due to a decrease in advertising listener hours as a result of hours control mechanisms.

*Advertising LPMs*

For the three months ended March 31, 2017 compared to 2016, the increase in ad LPMs was primarily due to a decrease in advertising listener hours as a result of hours control mechanisms.

**Basis of Presentation and Results of Operations**

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

| | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2017 |
| Revenue | | |
| Advertising | 74 % | 71 % |
| Subscription and other | 18 | 21 |
| Ticketing service | 7 | 9 |
| Total revenue | 100 | 100 |
| Cost of revenue | | |
| Cost of revenue — Content acquisition costs | 58 | 59 |
| Cost of revenue — Other (1) | 7 | 8 |
| Cost of revenue — Ticketing service (1) | 5 | 6 |
| Total cost of revenue | 70 | 73 |
| Gross profit | 30 | 27 |
| Operating expenses | | |
| Product development (1) | 12 | 13 |
| Sales and marketing (1) | 39 | 40 |
| General and administrative (1) | 16 | 14 |
| Total operating expenses | 67 | 66 |
| Loss from operations | (37 ) | (39 ) |
| Interest expense | (2 ) | (2 ) |
| Other income, net | — | — |
| Total other expense, net | (2 ) | (2 ) |
| Loss before provision for income taxes | (39 ) | (42 ) |
| Provision for income taxes | — | — |
| Net loss | (39 )% | (42 )% |

| | | |
|---|---|---|
| (1) Includes stock-based compensation as follows: | | |
| Cost of revenue - Other | 0.5 % | 0.3 % |
| Cost of revenue - Ticketing service | — | — |
| Product development | 2.9 | 2.5 |
| Sales and marketing | 4.6 | 4.3 |
| General and administrative | 5.0 | 2.3 |
| Note: Amounts may not recalculate due to rounding | | |

*Revenue*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | (in thousands) | | |
| Revenue | | | |
| Advertising | $ 220,308 | $ 223,308 | $ 3,000 |
| Subscription and other | 54,732 | 64,878 | 10,146 |
| Ticketing service | 22,265 | 27,818 | 5,553 |
| Total revenue | $ 297,305 | $ 316,004 | $ 18,699 |

*Advertising revenue*

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-through rates. We also have arrangements with advertising agencies under which these agencies sell advertising inventory on our service directly to advertisers. We report revenue under these arrangements net of amounts due to agencies. For the three months ended March 31, 2016 and 2017, advertising revenue accounted for 74% and 71% of our total revenue. We expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

For the three months ended March 31, 2017 compared to 2016, advertising revenue increased $3.0 million or 1%, primarily due to an approximate 15% increase in the number of ads sold, offset by an approximate 15% decrease in the average price per ad.

*Subscription and other revenue*

Subscription and other revenue is generated primarily through the sale of monthly or annual paid subscriptions to Pandora Plus and Pandora Premium. Pandora Plus is a paid, ad-free version of the Pandora service that includes replays, additional skipping, offline listening, higher quality audio on supported devices and longer timeout-free listening. Pandora Premium is a paid, ad-free version of the Pandora service that offers a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generates playlists based on their listening activity. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the three months ended March 31, 2016 and 2017, subscription and other revenue accounted for 18% and 21% of our total revenue.

For the three months ended March 31, 2017 compared to 2016, subscription and other revenue increased $10.1 million or 19%, primarily due to an approximate 20% increase in the number of subscribers.

*Ticketing service*

Ticketing service revenue is generated primarily from service and merchant processing fees generated on ticket sales through the Ticketfly platform. Ticketfly sells tickets to fans for events on behalf of clients and charges a fee per ticket, which generally increases as the face value of the ticket increases, or a percentage of the total convenience charge and order processing fee, for its services at the time the ticket for an event is sold. Ticketing service revenue is recorded net of the face value of the ticket at the time of the sale, as Ticketfly generally acts as the agent in these transactions. For the three months ended March 31, 2016 and 2017, ticketing service revenue accounted for 7% and 9% of our total revenue.

For the three months ended March 31, 2017 compared to 2016, ticketing service revenue increased $5.6 million or 25%, primarily due to an approximate 25% increase in the number of tickets sold, excluding box office sales.

*Costs and Expenses*

Cost of revenue consists of cost of revenue—content acquisition costs, cost of revenue—other and cost of revenue— ticketing. Our operating expenses consist of product development, sales and marketing and general and administrative costs. Cost of revenue—content acquisition costs are the most significant component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses. We expect to continue to hire additional employees in order to support our anticipated growth and our product development initiatives. In any particular period, the timing of additional hires could materially affect our cost of revenue and operating expenses, both in absolute dollars and as a percentage of revenue. We anticipate that our costs and expenses will increase in the future.

*Cost of revenue—Content acquisition costs*

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2016** | **2017** | **$ Change** |
| | | **(in thousands)** | |
| Cost of revenue—Content acquisition costs | $ 171,264 | $ 187,420 | $ 16,156 |

Cost of revenue—content acquisition costs primarily consist of licensing fees paid for streaming music or other content to our listeners, and licensing fees paid for the streaming of musical works embedded in sound recordings.

During the three months ended March 31, 2016, we obtained the rights to stream the majority of sound recordings on our service through statutory licenses, with the costs for such licenses determined according to the per play rates set by the Copyright Royalty Board. We obtained the rights to the majority of the musical works streamed on our service through direct licensing agreements with PROs or publishers, with the costs for such licenses based on a percentage of the content acquisition costs we paid for sound recordings.

During the three months ended March 31, 2017, the majority of our content acquisition costs were calculated using mainly negotiated rates documented in direct license agreements with record labels, music publishers and PROs. Depending on the applicable service, our sound recording license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service, or a per-subscriber minimum amount, all generally subject to certain discounts. For our ad-supported service, the majority of our content acquisition costs for musical works are based on a percentage of content acquisition costs paid for sound recordings. For our subscription services, content acquisition costs for musical works are determined in accordance with the statutory license set forth in 17 U.S.C. § 115. Certain of our direct license agreements are also subject to minimum guarantee payments, some of which are paid in advance and amortized over the minimum guarantee period. For certain content acquisition arrangements, we accrue for estimated content acquisition costs based on the available facts and circumstances and adjust these estimates as more information becomes available. For additional information, see above in "Factors Affecting Our Business Model—Content Acquisition Costs".

For the three months ended March 31, 2017 compared to 2016, content acquisition costs increased $16.2 million or 9% and content acquisition costs as a percentage of total revenue increased from 58% to 59%, primarily due to an increase in content acquisition costs pursuant to our direct license agreements for sound recordings with major and independent labels, distributors, PROs and publishers.

*Cost of revenue—Other*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | | (in thousands) | |
| Cost of revenue—Other | $ 21,195 | $ 25,532 | $ 4,337 |

Cost of revenue—other consists primarily of ad and music serving costs, employee-related and facilities and equipment costs, other costs of ad sales and amortization of internal-use software. In the three months ended March 31, 2017 we reallocated headcount from cost of revenue—other to product development, sales and marketing and general and administrative due to a reorganization of the company. Ad and music serving costs consist of content streaming, maintaining our internet radio and on-demand subscription services and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting music and ad-serving functions. Other costs of ad sales include costs related to music events that are sold as part of certain of our advertising arrangements.

For the three months ended March 31, 2017 compared to 2016, cost of revenue—other increased $4.3 million or 20%, primarily due to a $5.2 million increase in ad and music serving costs driven by an increase in revenue, a $0.9 million increase in costs related to music events and a $0.9 million increase in amortization of internal-use software, offset by a $2.5 million decrease in employee-related and facilities and equipment costs driven by an approximate 35% decrease in average headcount related to the reorganization of the company and the reduction in force.

*Cost of revenue—Ticketing service*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | (in thousands) | | |
| Cost of revenue—Ticketing service | $ 14,646 | $ 18,618 | $ 3,972 |

Cost of revenue—ticketing service consists primarily of ticketing revenue share costs, credit card fees and other cost of revenue and intangible amortization expense. The majority of these costs are related to revenue share costs, which consist of fees paid to clients for their share of convenience and order processing fees. Intangible amortization expense is related to amortization of developed technology acquired in connection with the Ticketfly acquisition.

For the three months ended March 31, 2017 compared to 2016, cost of revenue—ticketing service increased $4.0 million or 27%, primarily due to a $2.7 million increase in revenue share costs and an increase of $1.3 million in credit card fees and other cost of revenue driven by an increase in ticketing service revenue.

*Gross profit*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | (in thousands) | | |
| Gross profit | | | |
| Total revenue | $ 297,305 | $ 316,004 | $ 18,699 |
| Total cost of revenue | 207,105 | 231,570 | 24,465 |
| Gross profit | $ 90,200 | $ 84,434 | $ (5,766) |
| Gross margin | 30% | 27% | |

For the three months ended March 31, 2017 compared to 2016, gross profit decreased by $5.8 million or 6% and gross margin decreased from 30% to 27% as the growth in content acquisition costs outpaced the growth in revenue, primarily due to an increase in content acquisition costs pursuant to our direct license agreements for sound recordings with major and independent labels, distributors, PROs and publishers.

*Product development*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | (in thousands) | | |
| Product development | $ 35,611 | $ 39,588 | $ 3,977 |

Product development consists primarily of employee-related and facilities and equipment costs, including salaries and benefits related to employees in software engineering, music analysis and product management departments, information technology, costs associated with supporting consumer connected-device manufacturers in implementing our service in their products and amortization expense related to acquired intangible assets. We incur product development expenses primarily for improvements to our website and the Pandora app, development of new services and enhancement of existing services, development of new advertising products and development and enhancement of our personalized playlisting system. We have generally expensed product development as incurred. These amounts are offset by costs that we capitalize to develop software for internal use. Certain website development and internal use software development costs are capitalized when specific criteria are met. In such cases, the capitalized amounts are amortized over the useful life of the related application once the application is placed in service.

For the three months ended March 31, 2017 compared to 2016, product development expenses increased by $4.0 million or 11%, primarily due to a $3.5 million increase in employee-related and facilities and equipment costs driven by an approximate 15% increase in average headcount.

*Sales and marketing*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | (in thousands) | | |
| Sales and marketing | $ 117,433 | $ 125,102 | $ 7,669 |

Sales and marketing consists primarily of employee-related and facilities and equipment costs, including salaries, commissions and benefits related to employees in sales, sales support, marketing, advertising and music makers group departments. In addition, sales and marketing expenses include transaction processing commissions on subscription purchases through mobile app stores, external sales and marketing expenses such as brand marketing, advertising, direct response and search engine marketing costs, public relations expenses, costs related to music events, agency platform and media measurement expenses, infrastructure costs and amortization expense related to acquired intangible assets. Also included in sales and marketing are customer acquisition costs, which are defined as total external marketing costs. For the three months ended March 31, 2016 and 2017, customer acquisition costs were $6.4 million and $8.1 million.

We expect sales and marketing expenses to increase as we hire additional sales and sales support personnel and expand our presence in local radio markets. Additionally, we expect the launch of Pandora Premium to increase the revenue we generate through subscriptions. If this increase occurs, we also expect the subscription commissions we pay to increase. While we have historically relied on the success of viral marketing to expand consumer awareness of our service, in 2015 we began to launch advertising campaigns to increase the awareness of our brand. We anticipate that we will continue to utilize these types of advertising campaigns in the future. As such, we anticipate higher overall levels of sales and marketing expense going forward.

For the three months ended March 31, 2017 compared to 2016, sales and marketing expenses increased $7.7 million or 7%, primarily due to an $8.0 million increase in employee-related and facilities and equipment costs driven by an approximate 5% increase in average headcount and severance expense related to the reduction in force, offset by a $1.6 million decrease in transaction processing commissions on subscription purchases through mobile app stores due to reduced commission rates from our third-party subscription platform providers.

*General and administrative*

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2017 | $ Change |
| | (in thousands) | | |
| General and administrative | $ 46,524 | $ 44,525 | $ (1,999) |

General and administrative consists primarily of employee-related and facilities and equipment costs, including salaries, benefits and severance expense for finance, accounting, legal, internal information technology and other administrative personnel. In addition, general and administrative expenses include professional services costs for outside legal and accounting services, infrastructure costs, credit card fees and sales and other tax expense. We expect general and administrative expenses to increase in future periods as we continue to invest in corporate infrastructure, including adding personnel and systems to our administrative functions.

For the three months ended March 31, 2017 compared to 2016, general and administrative expenses decreased $2.0 million or 4%, primarily due to a decrease of $7.5 million in employee-related and facilities and equipment costs driven by a decrease in executive severance, offset by a $4.2 million increase in professional fees related to legal fees in connection with the rate-setting proceedings under Section 115.

*Interest expense*

Interest expense in the three months ended March 31, 2017 consists primarily of interest expense on our 1.75% Convertible Senior Notes due 2020 and interest on our credit facility. Refer to Note 7 "Debt Instruments" in the Notes to Condensed Consolidated Financial Statements for further details on our Notes and credit facility.

*Provision for (benefit from) income taxes*

We have historically been subject to income taxes in the United States and various foreign jurisdictions. As we expand our operations to other foreign locations, we become subject to taxation based on the applicable foreign statutory rates and our effective tax rate could fluctuate accordingly.

Our provision for (benefit from) income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted statutory income tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

*Off-Balance Sheet Arrangements*

Our liquidity is not dependent on the use of off-balance sheet financing arrangements and as of March 31, 2017 we had no such arrangements.

*Contractual Obligations*

There has been no material change in our contractual obligations other than in the ordinary course of business since the year ended December 31, 2016.

**Quarterly Trends**

Our operating results fluctuate from quarter to quarter as a result of a variety of factors. We expect our operating results to continue to fluctuate in future quarters.

*Pandora—Internet Radio and On-Demand Music Subscription Services*

Our results reflect the effects of seasonal trends in listener and advertising behavior. During the last quarter of each calendar year, we expect to experience both higher advertising sales due to greater advertiser demand during the holiday season and increased usage due to the popularity of holiday music. In addition, in the first quarter of each calendar year, we expect to experience lower advertising sales due to reduced advertiser demand, and increased usage by listeners due to increased use of media-streaming devices received as gifts during the holiday season. We believe these seasonal trends have affected, and will continue to affect our operating results, particularly if increases in content acquisition costs from increased usage are not offset by increases in advertising sales in the first calendar quarter.

In addition, expenditures by advertisers tend to be cyclical and discretionary in nature, reflecting overall economic conditions, the economic prospects of specific advertisers or industries, budgeting constraints and buying patterns and a variety of other factors, many of which are outside our control. As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indications of our future operating performance.

*Ticketing Service*

Ticketfly's results reflect the effects of seasonality related to the timing of events. Tickets for festivals, which constitute a significant portion of Ticketfly's business, typically go on sale during the first half of the year. As such, the Ticketfly business has historically experienced an increase in revenue in the first half of each year relative to the fourth quarter of the prior year. We expect these seasonal trends to continue to affect our operating results.

**Liquidity and Capital Resources**

As of March 31, 2017, we had cash, cash equivalents and investments totaling $203.0 million, which primarily consisted of cash and money market funds held at major financial institutions and investment-grade corporate debt securities.

Our principal uses of cash during the three months ended March 31, 2017 were funding our operations, as described below, and capital expenditures.

*Sources of Funds*

We believe, based on our current operating plan, that our existing cash and cash equivalents and additional sources of funding will be sufficient to meet our anticipated cash needs for at least the next twelve months.

From time to time, we may explore additional financing sources and means to lower our cost of capital, which could include equity, equity-linked and debt financing. In addition, in connection with any future acquisitions, we may require additional funding which may be provided in the form of additional debt, equity or equity-linked financing or a combination thereof. There can be no assurance that any additional financing will be available to us on acceptable terms.

*Our Indebtedness*

*Credit Facility*

We are party to a $120.0 million credit facility with a syndicate of financial institutions, which expires on September 12, 2018. In September 2016, we borrowed$90.0 million from the credit facility to enhance our working capital position. The amount borrowed is included in long-term debt on our balance sheet. Interest is payable quarterly at the applicable annual interest rate of 3.81% through September 2017. The applicable interest rate will be adjusted in September 2017.

As of March 31, 2017, we had $1.2 million in letters of credit outstanding and $28.8 million of available borrowing capacity under the credit facility. We are in compliance with all financial covenants associated with the credit facility as of March 31, 2017.

*1.75% Convertible Senior Notes Due 2020*

On December 9, 2015, we completed an unregistered Rule 144A offering of $345.0 million aggregate principal amount of our 1.75% Convertible Senior Notes due 2020. The net proceeds from the sale of the Notes were approximately $336.5 million, after deducting the initial purchaser's fees and other estimated expenses. We used approximately $43.2 million of the net proceeds to pay the cost of the capped call transactions. Refer to Note 7 "Debt Instruments" in the Notes to Condensed Consolidated Financial Statements for further details on our Notes.

*Capital Expenditures*

Consistent with previous periods, future capital expenditures will primarily focus on acquiring additional hosting and general corporate infrastructure. Our access to capital is adequate to meet our anticipated capital expenditures for our current plans.

*Historical Trends*

The following table summarizes our cash flow data for thethree months ended March 31, 2016 and 2017.

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2017** |
| | **(in thousands)** | |
| Net cash used in operating activities | $ (13,104) | $ (36,024) |
| Net cash provided by (used in) investing activities | (18,885) | 1,475 |
| Net cash provided by financing activities | 913 | 5,186 |

*Operating activities*

In the three months ended March 31, 2017, net cash used in operating activities was $36.0 million and primarily consisted of our net loss of$132.3 million, which was partially offset by non-cash charges of $53.9 million, primarily related to$29.6 million in stock-based compensation charges and $17.7 million in depreciation and amortization expense. Net cash used in operating activities also included a decrease in accrued compensation of$13.2 million and an increase in prepaid expenses and other assets of$5.6 million, offset by a decrease in accounts receivable of$44.9 million, an increase in accounts payable, accrued and other current liabilities of$13.2 million and an increase in reimbursements of costs of leasehold improvements of

$5.2 million. Net cash used in operating activities increased by $22.9 million from the three months ended March 31, 2016, primarily due to an increase in our net loss of $17.2 million.

*Investing activities*

In the three months ended March 31, 2017, net cash provided by investing activities was $1.5 million and included $11.2 million in proceeds from maturities of investments, offset by $7.8 million of capital expenditures for internal-use software and $2.0 million of capital expenditures for leasehold improvements and server equipment. Net cash provided by investing activities increased by $20.4 million from the three months ended March 31, 2016, primarily due to a decrease in capital expenditures for leasehold improvements and server equipment of $12.4 million, a decrease in purchases of investments of $5.0 million and an increase in proceeds from maturities of investments of $2.9 million.

*Financing activities*

In the three months ended March 31, 2017, net cash provided by financing activities was $5.2 million and included $2.8 million in proceeds from our employee stock purchase plan and $2.4 million in proceeds from the exercise of stock options. Net cash provided by financing activities increased $4.3 million from the three months ended March 31, 2016 due to an increase in proceeds from exercise of stock options of $1.9 million, a decrease in tax payments from net share settlements of restricted stock units of $1.3 million and an increase in proceeds from our employee stock purchase plan of $1.1 million.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur, could materially impact the condensed consolidated financial statements. We believe that our critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the condensed consolidated financial statements.

Other than discussed below, there have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the year ended December 31, 2016 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates."

*Stock-Based Compensation—Restricted Stock Units and Stock Options*

Stock-based awards granted to employees, including grants of restricted stock units ("RSUs") and stock options, are recognized as expense in our statements of operations based on their grant date fair value. We recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally three to four years. We estimate the fair value of RSUs at our stock price on the grant date. We generally estimate the grant date fair value of stock options using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model is affected by our stock price on the date of grant, the expected stock price volatility over the expected term of the award, which is based on projected employee stock option exercise behaviors, the risk-free interest rate for the expected term of the award and expected dividends.

Stock-based compensation expense is recorded in the statement of operations for only those stock-based awards that will vest. In the first quarter of 2017 we adopted new accounting guidance from the Financial Accounting Standards Board ("FASB") on stock compensation, or ASU 2016-09, as described in "Recently Adopted Accounting Standards" in Note 2 of the "Notes to Condensed Consolidated Financial Statements" and have elected to account for forfeitures as they occur, rather than estimating expected forfeitures.

Prior to the adoption of ASU 2016-09, we elected to use the "with and without" approach as described in Accounting Standards Codification 740—Income Taxes in determining the order in which tax attributes are utilized. As a result, we previously only recognized a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized. In addition, we elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credit, through the statement of operations.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

*Interest Rate Fluctuation Risk*

There have been no material changes in our primary market risk exposures or how those exposures are managed from the information disclosed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016. For further discussion of quantitative and qualitative disclosures about market risk, reference is made to our Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Based on their evaluation at the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2017.

**Changes in Internal Control over Financial Reporting**

There have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The material set forth in Note 5 in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### Item 1A. Risk Factors

*Investing in our common stock involves a high degree of risk. Before deciding to invest in our common stock, you should carefully consider each of the risk factors described below, which include any material changes to, and supersede the description of, risk factors associated with the Company's business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. Those risks and the risks described in this Quarterly Report on Form 10-Q, including in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," could materially harm our business, financial condition, operating results, cash flow and prospects. If that occurs, the trading price of our common stock could decline, and you may lose all or part of your investment.*

There have been no material changes to the Risk Factors described under "Part I—Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, other than as set forth below. The risk factors below, all of which originally appear in our Annual Report on Form 10-K, have been updated to reflect subsequent developments relevant to such risk factors.

***If our efforts to attract and retain subscribers or convert ad-supported listeners into subscribers of our subscription offerings are not successful, our business will be adversely affected.***

Our ability to continue to attract and retain users of our paid subscription services will depend in part on our ability to consistently provide our subscribers with a quality experience through Pandora Plus and Pandora Premium. If Pandora Plus and Pandora Premium subscribers do not perceive these offerings to be of value, or if we introduce new or adjust existing features or pricing in a manner that is not favorably received by them, we may not be able to attract and retain subscribers or be able to convince listeners to become subscribers of such additional service offerings. Subscribers may cancel their subscription to our service for many reasons, including a perception that they do not use the service sufficiently, the need to cut household expenses, competitive services that provide a better value or experience or as a result in changes in pricing. Further, in a number of cases, the rates that we pay pursuant to our direct license agreements with record labels are significantly affected by the number of subscribers we are able to attract and retain. If our efforts to attract and retain subscribers are not successful, our business, operating results and financial condition may be adversely affected.

***Our ability to offer interactive features in our services depends upon maintaining commercially viable direct licenses with copyright owners of the music we play. If we are not able to maintain these direct licenses, we could lose the right to provide interactive features in our ad-supported service and Pandora Plus and the right to operate Pandora Premium. If we are not able to renew these direct licenses on similar terms when they expire, our profitability may be negatively affected.***

Prior to September 15, 2016, we obtained the right to publicly perform music sound recordings on our services in the U.S. primarily through a statutory license at rates set by the Copyright Royalty Board. In 2015 and 2016, we entered into direct license agreements with dozens of music sound recording copyright owners, commonly known as "record labels", with thousands of musical work copyright owners, commonly known as "publishers", and with ASCAP, BMI and SESAC, the three largest performing rights organizations, commonly known as "PROs". In total, these agreements give us the right to add interactive features such as replays, additional skips and offline play to our ad-supported service and Pandora Plus in the U.S., which features we introduced on September 15, 2016, and they also give us the right to operate Pandora Premium. We continue to rely on the U.S. statutory license to publicly perform music sound recordings that are not covered by our direct licenses with record labels, but those recordings now constitute a small portion of the music that we stream. The direct licenses we have entered into with record labels and publishers are complex and require significant on-going efforts to operationalize, and there is risk that we may not be able to comply with the terms of these licenses, which could result in the loss of some or all of these licenses and some or all of the rights they convey. Similarly, many of these licenses provide that if the licensor loses rights in a portion of the content licensed under the agreement, that content may be removed from the license going-forward. In addition, if we are acquired, certain terms of our direct licenses, including favorable rates for content acquisition costs that currently apply to us, may not be available to an acquiror. If we were to fail to maintain any of these direct licenses, or if rights to certain music were no longer available under these licenses, then we may have to remove the affected music from our services, or discontinue certain interactive features for such music, or it might become commercially impractical for us to operate Pandora

Premium. Any of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

Several of these direct licenses also include provisions related to the royalty payments and structures of those agreements relative to other content licensing arrangements, which, if breached, could cause our payments under those agreements to escalate substantially. In addition, record labels, publishers and PROs with whom we have entered into direct licenses have the right to audit our content acquisition payments, and any such audit could result in disputes over whether we have paid the proper content acquisition costs. If such a dispute were to occur, we could be required to pay additional content acquisition costs, audit fees and interest or penalties, and the amounts involved could materially and adversely affect our business, financial condition and results of operations. Pursuant to the statutory license under which we streamed most of our sound recordings prior to September 15, 2016, and under which we will stream a small portion of our sound recordings going forward, SoundExchange, Inc. ("SoundExchange") has the right to audit our content acquisition payments thereunder. SoundExchange is currently conducting audits of our payments for the years 2010 to 2016.

Further, there is no guarantee that the direct licenses we have now will be renewed in the future or that such licenses will be available at the rates for content acquisition costs associated with the current licenses. If we are unable to secure and maintain direct licenses for the rights to provide music on our services at rates that are similar to those under our current direct licenses, or other commercially viable rates, our content costs could rise and materially adversely affect our business, financial condition and results of operations.

***The rates we must pay for "mechanical rights" to use musical works on our services are set by the Copyright Royalty Board, which is currently in the process of determining these rates for the five-year period beginning January 1, 2018. If these rates increase significantly, it will adversely affect our business.***

Our direct licenses with thousands of music publishers provide that the content acquisition payments for the so-called "reproduction rights" or "mechanical rights"—which are implicated in the interactive features that we introduced on September 15, 2016 to our ad-supported service and Pandora Plus, as well as in the operation of Pandora Premium—are determined in accordance with the rate formula set by the Copyright Royalty Board for the compulsory license made available by Section 115 of the Copyright Act. Further, these rates are also applicable to our use of musical works for which we do not have a direct license with the copyright owners. The current rate structure for the Section 115 compulsory license expires at the end of 2017. The Copyright Royalty Board has commenced proceedings to set the rates for the Section 115 compulsory license for calendar years 2018 to 2022 (the " Phonorecords III Proceedings"), and we are a participant in the Phonorecords III Proceedings. The trial under the Phonorecords III Proceedings commenced in March 2017 and concluded in April 2017. A decision is expected by end of 2017. The rates established by the Copyright Royalty Board in the Phonorecords III Proceedings may be higher, lower or the same as the rates currently in effect. If the Phonorecords III Proceedings yield rates that exceed the rates that are currently in place, our content acquisition costs may significantly increase, which could materially harm our financial condition and hinder our ability to provide interactive features in our services, or cause one or more of our subscription services to not be economically viable.

**Item 6. Exhibits**

| Exhibit No. | Exhibit Description | Incorporated by Reference: Form | File No. | Exhibit | Filing Date | Filed By | Filed Herewith |
|---|---|---|---|---|---|---|---|
| 3.01 | Amended and Restated Certificate of Incorporation | S-1/A | 333-172215 | 3.1 | 4/4/2011 | | |
| 3.02 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation | 10-Q | 001-35198 | 3.02 | 7/26/2016 | | |
| 3.03 | Amended and Restated Bylaws | S-1/A | 333-172215 | 3.2 | 4/4/2011 | | |
| 3.04 | Certificate of Amendment to the Amended and Restated Bylaws | 10-Q | 001-35198 | 3.04 | 7/26/2016 | | |
| 3.05 | Certificate of Amendment to the Amended and Restated Bylaws | 8-K | 001-35198 | 3.1 | 3/2/2017 | | |
| 3.06 | Certificate of Amendment to the Amended and Restated Bylaws | 8-K | 001-35198 | 3.1 | 3/16/2017 | | |
| 3.07 | Certificate of Amendment to the Amended and Restated Bylaws | 8-K | 001-35198 | 3.1 | 3/30/2017 | | |
| 3.08 | Certificate of Amendment to the Amended and Restated Bylaws | 8-K | 001-35198 | 3.1 | 4/14/2017 | | |
| 3.09 | Certificate of Amendment to the Amended and Restated Bylaws | 8-K | 001-35198 | 3.1 | 4/27/2017 | | |
| 10.01* | Twelfth Amendment to Lease between CIM/Oakland Center 21, LP and Pandora Media, Inc., dated January 11, 2017 | | | | | | X |
| 10.02† | 2017 Corporate Incentive Plan | | | | | | X |
| 10.03† | Severance and Release Agreement between Sara Clemens and Pandora Media, Inc., dated January 12, 2017 | | | | | | X |
| 10.04† | Offer Letter with David Gerbitz, dated June 3, 2014 | | | | | | X |
| 10.05† | Offer Letter with Naveen Chopra, dated February 27, 2017 | | | | | | X |
| 10.06† | Amendment No. 1 to the 2011 Equity Incentive Plan | S-8 | 333-216087 | 99.2 | 2/16/2017 | | |
| 31.01 | Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | | X |
| 31.02 | Certification of the Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | | X |

| | | |
|---|---|---|
| 32.01 | Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to 8 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |
| 101. INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | X |
| 101. SCH | XBRL Taxonomy Schema Linkbase Document | X |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | X |
| 101. DEF | XBRL Taxonomy Definition Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Labels Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | X |

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished on a supplemental basis to the Securities and Exchange Commission upon request; provided, however that we may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedules or exhibits so furnished.

† Indicates management contract or compensatory plan.

**SIGNATURES**

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

**PANDORA MEDIA, INC.**

| | | |
|---|---|---|
| Date: May 8, 2017 | By: | /s/ Naveen Chopra |
| | | Naveen Chopra |
| | | Chief Financial Officer |
| | | (Duly Authorized Officer and Principal Financial and Accounting Officer) |

# TWELFTH AMENDMENT TO LEASE

**THIS TWELFTH AMENDMENT TO LEASE** (this "Amendment") is entered into as of January 11, 2017, by and between **CIM/OAKLAND CENTER 21, LP**, a Delaware limited partnership ("Landlord"), and **PANDORA MEDIA, INC.**, a Delaware corporation ("Tenant"), with reference to the following facts:

## R E C I T A L S

A. Landlord and Tenant entered into that certain Office Lease dated as of July 23, 2009 (the "Original Lease"), as amended by that certain First Amendment to Lease dated as of April 13, 2010 (the "First Amendment"), that certain Second Amendment to Lease dated June 16, 2010 (the "Second Amendment"), that certain Third Amendment to Lease dated as of December 15, 2010 (the "Third Amendment"), that certain Fourth Amendment to Lease dated March 10, 2011 (the "Fourth Amendment"), that certain Fifth Amendment to Lease dated July 1, 2011 (the "Fifth Amendment"), that certain Sixth Amendment to Lease dated September 27, 2011 (the "Sixth Amendment"), that certain Seventh Amendment to Lease dated as of July 12, 2012 (the "Seventh Amendment"), that certain Eighth Amendment to Lease dated as of February 1, 2013 (the "Eighth Amendment"), that certain Ninth Amendment to Lease dated as of June 28, 2013 (the 'Ninth Amendment"), that certain Tenth Amendment to Lease dated as of October 3, 2014 (the "Tenth Amendment"), and that certain Eleventh Amendment to Lease dated as of June 22, 2015 (the "Eleventh Amendment", and together with the Original Lease, First Amendment, Second Amendment, Third Amendment, Fourth Amendment, Fifth Amendment, Sixth Amendment, Seventh Amendment, Eighth Amendment, Ninth Amendment, and Tenth Amendment, collectively, the "Lease"), pursuant to which Tenant leases certain premises (the 'Existing Premises") consisting of a total of 183,783 rentable square feet, including 108,126 rentable square feet on the seventh (7th), eighth (8th), tenth (10th), fifteenth (15th) and sixteenth (16th) floors of the building located 2101 Webster Street, Oakland, California (the "2101 Webster Building"), and 75,657 rentable square feet on the fourth (4th), sixth (6th) and seventh (7th) floors of the building located at 2100 Franklin Street, Oakland, California (the "2100 Franklin Building", and together with the "2101 Webster Building" the "Buildings"), which are both part of the office project known as "Center 21" comprised of (i) the Buildings, (ii) a subterranean parking garage underneath the Buildings, and (iii) a multi-story parking structure located at 2353 Webster Street (collectively, the "Project").

B. Tenant intends to expand the Premises to include a portion of the ground floor of the 2100 Franklin Building known as Suite 120, and consisting of 1,092 rentable square feet, as shown on Exhibit A attached hereto (the "Ground Floor Space").

C. Landlord has agreed to the foregoing expansion, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree as follows (capitalized terms used but not defined herein shall have the meaning given them in the Lease):

**A G R E E M E N T**

1. Incorporation of Recitals. Recitals A through C above are incorporated herein by reference.

2. The Ground Floor Space. Commencing upon delivery of the Ground Floor Space to Tenant (the "Ground Floor Commencement Date"), which date is anticipated to be on or about January 1, 2017, and continuing until the Second Extended Termination Date (as that term is defined in the Tenth Amendment (September 30, 2020)) (the "Ground Floor Space Term"), Landlord shall lease to Tenant, and Tenant shall lease from Landlord, the Ground Floor Space in addition to the Existing Premises. Following the Ground Floor Commencement Date, all references in the Lease to the Premises shall refer to the Existing Premises and the Ground Floor Space, and the Premises shall consist of a total of approximately 184,875 rentable square feet.

3. Monthly Base Rent for the Ground Floor Space. Commencing on that date which is ninety (90) days after the Ground Floor Commencement Date (the "Ground Floor Rent Commencement Date"), Tenant shall pay Base Rent for the Ground Floor Space in the amount of $2,184.00 per month (based on $2.00 per rentable square foot per month). Thereafter, on each anniversary of the Ground Floor Rent Commencement Date, Base Rent for the Ground Floor Space shall be increased annually by 3% per annum throughout the Second Extended Termination Date.

4. Base Year; Tenant's Proportionate Share for the Ground Floor Space. Tenant shall pay Tenant's Proportionate Share of increases of Operating Costs over the calendar year 2017, which is 0.5% (as to the Ground Floor Space only).

5. Condition of the Ground Floor Space. Tenant shall have the right to improve the Ground Floor Space in accordance with the terms and conditions of the Work Letter attached to the Eleventh Amendment. Except as set forth herein, Tenant hereby agrees to accept the Ground Floor Space in its "as-is, where is" condition (but with all Building systems therein in good working order) and Tenant acknowledges that Landlord has no obligation to improve the Ground Floor Space nor has Landlord made any representation or warranty regarding the condition of the Ground Floor Space (other than regarding having the Building systems in good working order).

6. Parking. Effective as of the Ground Floor Commencement Date and continuing throughout the Second Extended Termination Date, Tenant shall have the right to rent one (1) additional unreserved parking pass in the Parking Structure at 2353 Webster. Tenant's rental and use of such additional parking pass shall be in accordance with, and subject to, all provisions of the Lease including, without limitation, any increases in payment of the monthly parking rates as specified therein. Bicycle parking is available on the first deck of the 2353 Webster Parking Structure at no cost to Tenant. The parties acknowledge that Landlord currently operates a courtesy shuttle on non-holiday business days between the Parking Structure and the Building, and between the Building and the 19th Street BART Station between 3:30 p.m. and 8:30 p.m. Tenant should direct any questions regarding such shuttle to the Buildings manager.

7. Option to Extend. The renewal option in Section 11 of the Tenth Amendment shall apply to the entire Premises (as herein expanded).

8. Signage. At no cost to Tenant, Landlord shall provide Buildings standard signage for the Ground Floor Space. Subject to Landlord's prior reasonable approval as to the design of the sign, at Tenant's sole cost, Tenant may place its standard corporate signage, with corporate logo, at the Premises double door entry and in the elevator lobby on any full floor that it occupies.

9. Security Deposit. Tenant is not required to provide any additional Security Deposit (as defined in the Lease) in connection with the Ground Floor Space.

10. Authority.

(a) Landlord hereby covenants, represents and warrants to Tenant that: (i) no third party consents or approvals are required, or Landlord has obtained all required consents or approvals (and such consents or approvals have been attached to this Amendment), in order for Landlord to enter into this Amendment; (ii) the execution, delivery and full performance of this Amendment by Landlord does not and shall not constitute a violation of any contract, agreement, mortgage, undertaking, judgment, law, decree, governmental or court or other restriction of any kind to which Landlord is a party or by which Landlord may be bound; (iii) Landlord is duly organized, validly existing and in good standing under the laws of the state of its organization and has full power and authority to enter into this Amendment, to perform its obligations under this Amendment in accordance with its terms, and to transact business in the state in which the Premises are located; (iv) this Amendment does not violate the provisions of any instrument heretofore executed by and/or binding on Landlord, or affecting or encumbering the Premises.

(b) Tenant hereby covenants, represents and warrants to Landlord that: (i) no third party consents or approvals are required, or Tenant has obtained all required consents or approvals (and such consents or approvals have been attached to this Amendment), in order for Tenant to enter into this Amendment; (ii) the execution, delivery and full performance of this Amendment by Tenant does not and shall not constitute a violation of any contract, agreement, mortgage, undertaking, judgment, law, decree, governmental or court or other restriction of any kind to which Tenant is a party or by which Tenant may be bound; (iii) Tenant is duly organized, validly existing and in good standing under the laws of the state of its organization and has full power and authority to enter into this Amendment, to perform its obligations under this Amendment in accordance with its terms, and to transact business in the state in which the Premises are located; (iv) this Amendment does not violate the provisions of any instrument heretofore executed by and/or binding on Tenant.

11. Brokers. Landlord and Tenant each warrant and represent to the other that other than CBRE and Colliers International ("Brokers"), it has not employed or dealt with any real estate broker or finder in connection with this Amendment, and that it knows of no real estate broker, agent or finder who is or might be entitled to a commission or fee in connection with this Amendment. Landlord and Tenant each agree to indemnify, defend and hold the other harmless from and against any and all claims demands, losses, liabilities, lawsuits, judgments, and costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent other than Brokers occurring by, through, or under the indemnifying party in connection with this Amendment.

12. OFAC Compliance. Tenant hereby warrants and represents that: (a) neither Tenant nor any of its affiliates does business with, sponsors, or provides assistance or support to, the government of, or any person located in, any country, or with any other person, targeted by any of the economic sanctions of the United States administered by The Office of Foreign Assets Control (“OFAC”); Tenant is not owned or controlled (within the meaning of the regulations promulgating such sanctions or the laws authorizing such promulgation) by any such government or person; and any payments and/or proceeds received by Tenant under the terms of this Lease will not be used to fund any operations in, finance any investments or activities in or make any payments to, any country, or to make any payments to any person, targeted by any of such sanctions; (b) no funds tendered to Landlord by Tenant under the terms of this Lease are or will be directly or indirectly derived from activities that may contravene U.S. federal, state or international laws and regulations, including anti-money laundering laws; (c) neither Tenant, nor any person controlling, controlled by, or under common control with, Tenant, nor any person having a beneficial interest in Tenant, nor any person for whom Tenant is acting as agent or nominee, nor any person providing funds to Tenant in connection with this Lease (i) is under investigation by any governmental authority for, or has been charged with, or convicted of, money laundering, drug trafficking, terrorist related activities, any crimes which in the United States would be predicate crimes to money laundering, or any violation of any Anti-Money Laundering Laws; (ii) has been assessed civil or criminal penalties under any Anti-Money Laundering Laws; (iii) has had any of its funds seized or forfeited in any action under any Anti-Money Laundering Laws; (iv) is a person or entity that resides or has a place of business in a country or territory which is designated as a Non-Cooperative Country or Territory by the Financial Action Task Force on Money Laundering, or whose subscription funds are transferred from or through such a jurisdiction; (v) is a “Foreign Shell Bank” within the meaning of the Patriot Act (i.e., a foreign bank that does not have a physical presence in any country and that is not affiliated with a bank that has a physical presence and an acceptable level of regulation and supervision); (vi) is a person or entity that resides in, or is organized under the laws of, a jurisdiction designated by the Secretary of the Treasury under Section 311 or 312 of the Patriot Act as warranting special measures due to money laundering concerns; (vii) is an entity that is designated by the Secretary of the Treasury as warranting such special measures due to money laundering concerns; or (viii) is a person or entity that otherwise appears on any US.-government provided list of known or suspected terrorists or terrorist organizations. For purposes of this representation, the term “Anti-Money Laundering Laws” shall mean all laws, regulations and executive orders, state and federal, criminal and civil, that (1) limit the use of and/or seek the forfeiture of proceeds from illegal transactions; (2) limit commercial transactions with designated countries or individuals believed to be terrorists, narcotics dealers or otherwise engaged in activities contrary to the interests of the United States; (3) require identification and documentation of the parties with whom a financial institution conducts business; or (4) are designed to disrupt the flow of funds to terrorist organizations. Such laws, regulations, and sanctions shall include, without limitation, the USA PATRIOT Act of 2001, Pub. L. No. 107-56 (the “Patriot Act”), Executive Order 13224, the Bank Secrecy Act, 31 U.S.C. Section 531 et. seq., the Trading with the Enemy Act, 50 U.S.C. App. Section 1 et. seq., the International Emergency Economic Powers Act, 50 U.S.C. Section 1701 et. seq., the OFAC-administered economic sanctions, and laws relating to prevention and detection of money laundering in 18 U.S.C. Sections 1956 and 1957. Tenant has reviewed the OFAC website, and conducted such other investigation as it deems necessary or prudent, prior to making these representations and warranties.

13. Non-Discrimination. Neither Tenant nor any of its affiliates, employees, contractors, subcontractors, or agents shall unlawfully discriminate against any employee or applicant for employment because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. Tenant and its affiliates, employees, contractors, subcontractors, and agents shall (i) assure that the evaluation and treatment of their employees and applicants for employment are free of such discrimination, (ii) take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to, race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex (including, but not limited to, during the activities of: upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship), (iii) comply with the provisions of the California Fair Employment and Housing Act (Section 12900 et seq. of the California Government Code) and the applicable regulations promulgated thereunder (California Code of Regulations, Title 2, Division 4, Chapter 1, Section 7285.0 et seq.), but only if and to the extent Tenant and its affiliates, employees, contractors, subcontractors, and agents are required to do so under applicable law, (iv) give written notice of their obligations under this clause to labor organizations with which they have a collective bargaining or other agreement, (v) conduct their respective activities in accordance with Title VI of the Civil Rights Act of 1964 and the rules and regulations promulgated thereunder, but only if and to the extent Tenant and its affiliates, employees, contractors, subcontractors, and agents are required to do so under applicable law, and (vi) post in conspicuous places, available to employees and applicants for employment, notices setting forth their respective policies regarding non-discrimination.

14. REIT Representations. Tenant understands that, in the event Landlord or any of its direct or indirect members or partners or any successor to any of the above needs to qualify as a real estate investment trust, the following requirements (the "REIT Requirements") must be satisfied:

a. Personal Property Limitation. Anything contained in this Lease to the contrary notwithstanding, the average of the fair market values of the items of personal property that are leased to Tenant under this Lease at the beginning and at the end of any Lease Year shall not exceed fifteen percent (15%) of the average of the aggregate fair market values of the leased property at the beginning and at the end of such Lease Year (the "Personal Property Limitation"). If Landlord reasonably anticipates that the Personal Property Limitation will be exceeded with respect to the leased property for any Lease Year, Landlord shall notify Tenant, and Tenant either (i) shall purchase at fair market value any personal property anticipated to be in excess of the Personal Property Limitation ("Excess Personal Property") either from Landlord or a third party or (ii) shall lease the Excess Personal Property from third party. In either case, Tenant's Rent obligation shall be equitably adjusted.

b. Sublet Rents. Anything contained in this Lease to the contrary notwithstanding, Tenant shall not sublet the Premises on any basis such that the rent or other amounts to be paid by the sublessee thereunder would be based, in whole or in part, on either (i) the net income or profits derived by the business activities of the proposed sublessee, or (ii) any other formula such that any portion of the Rent would fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Internal Revenue Code, or any similar or successor provision hereto.

c. REIT Requirements. Tenant agrees to cooperate in good faith with Landlord to ensure that the terms of this section are satisfied. Tenant agrees upon request by Landlord to take reasonable action necessary to ensure compliance with all REIT Requirements and to ensure that Rent, at all times qualifies as "rents from real property" with the meaning of Section 856(d) of the Internal Revenue Code. If Tenant becomes aware that the REIT Requirements are not, or will not be, satisfied, Tenant shall notify Landlord of such noncompliance.

15. Status of Lease. Except as amended by this Amendment, the Lease remains unchanged, and, as amended by this Amendment, the Lease is in full force and effect.

16. Counterparts. This Amendment may be executed in several counterparts, each of which may be deemed an original, but all of which together shall constitute one and the same Amendment. In addition, properly executed, authorized signatures may be transmitted via facsimile and upon receipt shall constitute an original signature.

17. Entire Agreement. There are no oral or written agreements or representations between the parties hereto affecting the Lease not contained in the Lease or this Amendment. The Lease, as amended, supersedes and cancels any and all previous negotiations, arrangements, representations, brochures, displays, projections, estimates, agreements, and understandings, if any, made by, to, or between Landlord and Tenant and their respective agents and employees with respect to the subject matter thereof, and none shall be used to interpret, construe, supplement or contradict the Lease, including any and all amendments thereto. The Lease, and all amendments thereto, shall be considered to be the only agreement between the parties hereto and their representatives and agents. To be effective and binding on Landlord and Tenant, any amendment, revision, change or modification to the provisions of the Lease must be in writing and executed by both parties.

--Signatures Next Page--

IN WITNESS WHEREOF, Landlord and Tenant have entered into this Amendment as of the date first set forth above.

"**Tenant**":

**PANDORA MEDIA, INC.,**
a Delaware corporation

| | |
|---|---|
| By: | /s/ Michael Herring |
| Name: | Michael Herring |
| Its: | President & CFO |

"**Landlord**":

**CIM/OAKLAND CENTER 21, LP,**
a Delaware limited partnership

By:CIM Management, Inc., a California corporation
Its property manager

By: /s/ Terry Wachsner
Terry Wachsner, Vice President

**Pandora Media Corporate Incentive Plan for Fiscal Year Ending December 31, 2017**

The Pandora Media, Inc. ("***Pandora***") Corporate Incentive Plan for the fiscal year ending December 31, 2017 (the "***Plan***") is designed to reward eligible employees for their efforts toward the accomplishment of Pandora's goals during the Plan Year. For purposes of the Plan, "***Plan Year***" means Pandora's fiscal year starting January 1, 2017 through and including December 31, 2017.

**Eligibility**

**Eligibility under the Plan does not represent a commitment or guarantee that you will receive any payment under the Plan. If, for any reason, you are not an active employee of Pandora (or one of its eligible subsidiaries as determined by the Compensation Committee of Pandora's Board of Directors (the "*Compensation Committee*")) on the date on which payments hereunder are made, you will not be eligible to receive a bonus under the Plan.** Furthermore, the decision to pay any bonus under the Plan remains in the full discretion of the Compensation Committee.

Selected employees at the manager or equivalent level and all employees at the director level and above are eligible (an "***Eligible Position***"). To receive any payment under the Plan, an employee in an Eligible Position must remain active employee during the Plan Year and through the date on which payments hereunder are made in order to be eligible to receive a bonus payment, if any ("***Eligible Employee***").

*New Hires and Promotions into Eligible Positions*. Employees hired or promoted into an Eligible Position after the beginning of the Plan Year will have any bonus prorated to reflect the length of time employed in an Eligible Position during the Plan Year. However, employees hired or promoted into an Eligible Position on or after November 1, 2017 will not be eligible to participate in the Plan.

*Changes Between Eligible Positions*. Eligible Employees who move from one Eligible Position to another Eligible Position with a different Target Bonus (as defined below) will have any bonus prorated to reflect the different Target Bonus amounts based on the length of time employed in each Eligible Position.

*Prorated Bonus for Approved Leave of Absence*. Eligible Employees who take an approved leave of absence for longer than ten (10) consecutive business days will have any bonus prorated to exclude the time period during which they were on the approved leave of absence. This proration of the bonus (if any) would occur regardless of whether the Eligible Employee received partial or full salary continuation or other pay during the leave of absence.

**Target Bonus Opportunity**

Each Eligible Position is assigned a target bonus opportunity ("***Target Bonus***"), generally expressed as a percentage of earned salary for the applicable period. Your manager will discuss your Target Bonus with you. There is no guarantee that you will receive your Target Bonus, and you may receive a lower or higher amount or no bonus.

**Plan Administration**

The Compensation Committee will have sole discretion to determine the aggregate pool (the "***Bonus Pool***") under the Plan, as described below, depending solely upon its assessment of Pandora's overall performance measured against objectives that the Compensation Committee and management will discuss from time to time. In exercising its discretion, the Compensation Committee will consider any extraordinary activities during the year, including mergers, acquisitions, new market expansion and other strategic initiatives. Pandora and the Compensation Committee may amend, suspend or terminate the Plan at any time and in any manner. **All payments under the Plan are discretionary. Regardless of whether any specific performance metrics are set for any Plan Year, the decisions as to whether, and how much, to fund the Bonus Pool remain in the full discretion of the Compensation Committee, and Pandora's financial results for any Plan Year shall not be deemed to give any Eligible Employee a right to any payment under the Plan.**

The Incentive Committee of Pandora (the "***Incentive Committee***") is responsible for administering the Plan with respect to Eligible Employees who are not executive officers of Pandora ("***Non-Executive Employees***"), subject to the direction of the Compensation Committee. Members of the Incentive Committee shall be the CEO and/or any officers or managers appointed by the CEO to the Incentive Committee. The Incentive Committee will, in its discretion, determine a Non-Executive Employee's eligibility under the Plan, including whether part-time employees are eligible and whether Pandora will pay prorated bonuses for Non-Executive Employees who retire (and, if so, the retirement criteria) or die during the Plan Year. All determinations, interpretations, rules and decisions of the Compensation Committee and/or the Incentive Committee shall be conclusive and binding upon all persons claiming to have any interest or right under the Plan.

**Bonus Payments**

In order to receive any payment under the Plan, an Eligible Employee must remain an active employee through the date on which payments hereunder are made. If, before such date(s), your employment is terminated (whether by you or by Pandora, regardless of the reason), you will not be eligible to receive a bonus under the Plan, subject to the Incentive Committee's discretion to pay a prorated bonus in the event of a Non-Executive Employee's retirement or death during the Plan Year.

The Compensation Committee will determine the Bonus Pool and the individual payments to each executive officer of Pandora.

With respect to the Non-Executive Employees, the Incentive Committee shall have the discretion to determine the portion of the remaining Bonus Pool that will be awarded to any individual or to any department or business unit and to delegate responsibility for determining individual payments to your manager.

As a result, the actual payment to you of a bonus, if any, under the Plan is subject to the discretion of the Compensation Committee, the Incentive Committee and your manager.

**Operating Guidelines**

No Eligible Employee may rely on any verbal or other information outside of this Plan. Pandora reserves the right to amend, terminate or make significant changes to the Plan at any time and for any reason, with or without notice. Eligibility for a bonus under this Plan does not guarantee eligibility for any future payments or bonus programs.

**At Will Employment**

Nothing in the Plan shall confer upon any employee or other Plan participant any right to continued employment or service with Pandora for any specific duration or otherwise restrict in any way the rights of Pandora or any employee to terminate an Eligible Employee's employment at any time, for any reason, with or without cause.

**Tax Withholding**

Pandora shall withhold from the payments under the Plan all federal, state and local income or other taxes required to be withheld therefrom and any other required payroll deductions, and as a condition precedent to payment under the Plan, all recipients shall make arrangements satisfactory to Pandora for the payment of any personal income or other taxes. All payments hereunder are intended to qualify for the short-term deferral exception from Section 409A of the Internal Revenue Code and, if required to qualify for such exception, shall be made no later than 2 and 1/2 months following the end of the taxable year in which an individual becomes legally entitled to, or vested in, a payment hereunder.

**Miscellaneous**

This Plan is unfunded. In no event may a participant sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan or relating hereto. At no time will any such right or interest under the Plan be subject to the claims of any participant’s creditors or liable to attachment, execution or other legal process.

**SEVERANCE AND RELEASE AGREEMENT**

This SEVERANCE AND RELEASE AGREEMENT (“***Agreement***”) is made this day of January 12, 2017 (the “***Agreement Date***”) by and between Sara Clemens (“***Executive***”) and Pandora Media, Inc. (the “***Company***”).

WHEREAS, Executive has been employed with the Company pursuant to an offer letter dated January 20, 2014, (the “***Offer Letter***”);

WHEREAS, the parties hereto have agreed that Executive will resign her employment effective February 1, 2017 (the “***Resignation Date***”); and

WHEREAS, the Company has offered Executive certain consideration in exchange for Executive’s commitments set forth in this Agreement;

NOW THEREFORE, the parties agree as follows:

1. Change in Employment Status. Executive’s employment will be separated by way of resignation effective at the close of business on the Resignation Date. To the extent that, as of the Resignation Date, Executive has any remaining accrued but unused PTO, Executive will receive a cashout of such PTO balance, in accordance with applicable laws. For the avoidance of doubt, the Company confirms that Executive remains eligible for a cash payment under the terms of the Pandora Media Corporate Incentive Plan for Fiscal Year Ending December 31, 2016, based on the Company’s actual performance as determined by the Compensation Committee of the Board of Directors of the Company (the “***Compensation Committee***”) in its discretion, with such cash payment to be made on the date such payment is made to other eligible employees (“***2016 Bonus Payment***”).

2. Resignation from Offices and Directorships. The parties agree that a condition precedent to any of the Company’s obligations under this Agreement is Executive’s resignation from Executive’s employment and all officer and director positions with the Company, its subsidiaries or any affiliates of any of them (including, without limitation, Executive’s position as Chief Operating Officer of the Company, effective as of the Resignation Date). Executive agrees to execute such additional documentation as the Company or its subsidiaries or affiliates may reasonably request to effectuate such resignations.

3. Severance Benefits. If Executive timely signs, dates, returns, and does not revoke this Agreement in accordance with Section 12 of this Agreement; and so long as Executive is not in breach of her obligations under this Agreement, then the Company will provide Executive the following (the “***Severance Benefits***”) in full satisfaction of any monetary or other obligations to which Executive could claim entitlement under the Offer Letter or the Company’s Executive Severance and Change of Control Policy (“***Severance Policy***”):

a. A cash payment equal to eleven (11) times Executive's monthly base salary in effect on the Resignation Date, paid in a lump sum within ten (10) business days following the Effective Date of this Agreement;

b. A cash payment equal to the amount that Executive would have received under the Pandora Media Corporate Incentive Plan for Fiscal Year Ending December 31, 2017 as if she had remained an eligible employee for the entirety of 2017, based on the Company's actual performance as determined by the Compensation Committee in its discretion for the remaining executive officers of the Company following the completion of the fiscal year ending December 31, 2017; *provided* that such payment will not exceed Executive's annual target bonus for the current performance period; *provided further* that such payment will be made no later than May 15, 2018;

c. So long as Executive timely elects (and remains eligible for) health benefits continuation pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("***COBRA***"), payment by the Company of Executive's applicable premiums (including spouse or family coverage if Executive had such coverage on the Resignation Date) for such continuation coverage under COBRA (payable as and when such payments become due) during the period commencing after the termination of her regular employee benefits and ending on the earliest to occur of (a) six (6) months following the termination of her regular employee benefits, and (b) the date on which the Executive and her or her covered dependents, if any, become eligible for health insurance coverage through another employer, or becomes otherwise covered under another group health plan;

d. Reasonable outplacement and career continuation services by a firm to be selected by the Company for up to three (3) months following the Resignation Date, if Executive elects to participate in such services;

e. The following vesting schedule:

i. effective within ten (10) business days following the Effective Date of this Agreement, accelerated vesting by six (6) months of all outstanding Company stock options held by Executive as of the Resignation Date; *provided* that, in lieu of the foregoing, stock options that do not vest monthly will be accelerated through six (6) months following the Resignation Date as if such stock option had been on a monthly vesting schedule through the original vesting period; *provided*, *further*, that the parties agree that Schedule 3(e)(i) correctly sets forth all outstanding Company stock options held by Executive as of the Resignation Date and the Company stock options to be accelerated under this Section 3(e)(i).

ii. effective within ten (10) business days following the Effective Date of this Agreement, accelerated vesting of all outstanding non-performance-based restricted stock units that would have vested had Executive remained in Continuous Service Status (as defined in the Pandora Media, Inc. 2011 Equity Incentive Plan) through February 28, 2018 (pursuant to the Notice of Restricted Stock Unit Grants dated March 11, 2015 and April 15, 2016); *provided*, *further*, that the parties agree that Schedule 3(e)(ii) correctly sets forth all outstanding non-performance-based restricted stock units held by the Executive and the non-performance-based restricted stock units to be accelerated under this Section 3(e)(ii);

iii. continued eligibility for the vesting of performance-based restricted stock units based on the achievement of the performance-based vesting conditions on the February 15, 2017 and May 15, 2017 Vesting Dates (as such term is defined in the Notice of Performance Award Grant dated as of April 15, 2016); *provided*, *further*, that the parties agree that Schedule 3(e)(iii) correctly sets forth the performance-based restricted stock units eligible for continued vesting under this Section 3(e)(iii);

iv. *provided*, that all remaining stock options, restricted stock, restricted stock units or other equity-based awards, or portions thereof, that do not vest in accordance with this Agreement shall be forfeited and cancelled by the Company; and

f. In the event a Change of Control (as defined in the Pandora Media, Inc. 2011 Equity Incentive Plan) occurs prior to June 30, 2017, Executive shall receive the following additional payments and benefits:

i. a cash payment equal to one (1) month of Executive's monthly base salary in effect on the Resignation Date, paid in a lump sum within ten (10) days following the Change of Control;

ii. so long as Executive timely elects (and remains eligible for) health benefits continuation pursuant to COBRA, payment by the Company of Executive's applicable premiums (including spouse or family coverage if Executive had such coverage on the Resignation Date) for such continuation coverage under COBRA (payable as and when such payments become due) during the period commencing on the Change of Control and ending on the earliest to occur of (a) six (6) months following the Change of Control, and (b) the date on which the Executive and her or her covered dependents, if any, become eligible for health insurance coverage through another employer, or becomes otherwise covered under another group health plan; and

iii. accelerated vesting, effective immediately prior to the Change of Control, of all outstanding stock options, restricted stock, restricted stock units or other equity-based awards held by Executive as of the Effective Date, provided, however, that if any such equity award agreement provides by its terms for specific action in the case of a Change of Control, Executive shall receive the benefits specified in such award agreement.

All payments made to Executive or on Executive's behalf under this Agreement will be subject to payroll withholding requirements as required by law. Such payments are in lieu of any other severance payments to which Executive might claim entitlement (and which the Company would dispute) under the Offer Letter and in lieu of any payments or benefits to which Executive might otherwise claim entitlement (and which the Company would dispute) under any benefit plan, compensation plan, deferred compensation plan, incentive plan or bonus plan of the Company, including, without limitation, the Severance Policy, or under any other contractual right or agreement. Executive further agrees and acknowledges that, as of the date she executes this Agreement, she has been paid all compensation due and owing through such signature date, including any then-earned salary, bonuses, and any other incentive payments, accrued but unused vacation or paid-time-off, as well any other monies to which she was entitled, other than the Severance Benefits and other than the 2016 Bonus Payment.

4. Waiver and Release. In exchange for the provisions described above, Executive hereby waives, releases, gives up, and promises never to make any claims of any kind (whether Executive knows of them now or not) that Executive may have against the Company, and each of its past and present parents, predecessors, successors, assigns, related companies, entities or divisions, and their past and present officers, directors, stockholders, employee benefit plans, plan administrators, trustees, fiduciaries, agents, attorneys or employees of any of them (collectively the "***Company Affiliates***"), in each case, with respect to or related to the terms and conditions of Executive's employment, recruitment for employment, and separation from employment with the Company or any of its subsidiaries or affiliates. The claims that Executive is waiving, releasing, giving up and promising never to make include, but are not limited to, all of the following:

a. any claims for further compensation or benefits from any of the Company Affiliates;

b. any claims arising out of the Offer Letter, any Company compensation or benefit plan (including, without limitation, the Severance Policy), or any other contractual right applicable to Executive's employment or separation of employment with the Company or any subsidiary or affiliate;

c. any claim based on age, race, color, national origin, ancestry, sex (including pregnancy), gender identity, marital status, religion, veteran status, disability, sexual orientation, genetic information, medical condition or based on other categories protected by federal, state, or local anti-discrimination, anti-harassment, and anti-retaliation laws, including, without limitation, Title VII of the Civil Rights Act of 1964, the Equal Pay Act of 1963, the Age Discrimination in Employment Act, the Americans with Disabilities Act and the California Fair Employment and Housing Act, or based on the Family and Medical Leave Act, the California Family Rights Act, the Employee Retirement Income Security Act,, the Worker Adjustment and Retraining Act, the Fair Labor Standards Act and the California Labor Code, all as amended, and any other laws and regulations relating to employment and that are waivable;

d. any claim under any contract, agreement (including the Offer Letter), promise or policy with respect to or in relation to Executive's employment with the Company or any subsidiary or affiliate, except for any rights arising out of this Agreement;

e. any claim for violation of any other legal duty or public policy, including but not limited to, common law tort claims such as defamation, assault, invasion of privacy, and intentional infliction of mental distress; and

f. any claim for attorneys' fees, expenses, and/or costs.

Executive expressly waives any benefits of Section 1542 of the Civil Code of the State of California, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Executive accepts the payments and benefits provided under this Agreement in full satisfaction of all such claims, provided that this waiver and release does not extend to Executive's right to assert a claim for breach of this Agreement, claims for reimbursement under California Labor Code Section 2802, claims for workers compensation, or any other claim that cannot be waived as a matter of law. Executive represents, however, that, as of the date she executes this Agreement, she has not suffered any workplace injury for which she has not already filed a claim for workers compensation.

The above waiver and release does not affect Executive's right to file a charge or cooperate in an investigation with the Equal Employment Opportunity Commission or similar state or local agencies, but it is understood and agreed that Executive waives, releases and gives up any right to money damages or other payment or personal benefit with regard to or arising out of any such charge or investigation. The releases being provided herein also do not limit or affect Executive's right to challenge the enforceability of this release under the Older Workers Benefit Protection Act.

Executive recognizes and agrees that the separation of Executive's employment is permanent and without expectation of recall or reemployment by the Company or any Company subsidiary or affiliate.

5. Acknowledgement and Continuing Obligations.

(a) Executive acknowledges that the Confidential Information, Invention Assignment, and Arbitration Agreement entered into by and between the Company and Executive signed on January 22, 2014 (the "***Confidential Information Agreement***"), remains in full force and effect following the execution of this Agreement and that she will continue to abide by her obligations under that agreement.

(b) Executive agrees: (i) that Executive has not disclosed and will not disclose any information about the Company, or any of the Company Affiliates or any of their business activities, to any person or entity, or any agent or representative of a person or entity, known to Executive at the time of such disclosure to be in litigation with or considering litigation against the Company or any of the Company Affiliates, and (ii) not to serve as an expert witness concerning the Company or any Company Affiliate. Executive's commitments do not prohibit Executive from complying with a subpoena or court order, but Executive agrees that if subpoenaed Executive will immediately notify the Company and give the Company the opportunity to have its counsel present during any communications pursuant to such subpoena, unless prohibited by court order, and Executive will notify the Company as soon as Executive learns of any such order.

(c) Executive agrees that for a period of twelve (12) months following the Resignation Date, Executive will not, directly or indirectly, solicit, induce, or encourage any employee of any Company Affiliate to (i) terminate her employment with such Company Affiliate; (ii) become employed by an employer other than a Company Affiliate; or (iii) form a business or pursue a business opportunity other than employment with a Company Affiliate; provided that nothing herein shall prohibit Executive from publishing a general solicitation or advertisement for employment for any new employer or venture.

(d) Executive agrees that she will continue to abide by the terms of the Company's Insider Trading Policy, and understands that Executive is restricted in trading Company securities until the next trading window is open. The first trading window after Executive's Resignation Date is expected to open on or around February 13, 2017.

Pandora will notify Executive (via email at sara.clemens@ortelius-partners.com) when the trading window opens in February.

6. Enforcement. Because Executive's services are unique and because Executive has access to Confidential Information (as defined in the Confidential Information Agreement) and work product, the parties hereto agree that the Company, and/or its Affiliates as applicable, would be damaged irreparably in the event any of the provisions of Section 5, 7, 8, and 9 hereof were not performed in accordance with their specific terms or were otherwise breached and that money damages would be an inadequate remedy for any such non-performance or breach. Therefore, the Company and/or the Company Affiliates and/or their successors or assigns, shall be entitled, in addition to other rights and remedies existing in their favor, to an injunction or injunctions to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security).

7. Non-Disparagement. Executive agrees that she will not make any disparaging, negative or untrue statements about the Company or any Company Affiliate, including, without limitation, any statements about the products, business affairs or employees of the Company or any Company Affiliate. Nothing in this paragraph shall prevent Executive from providing truthful statements in response to legal process or governmental or regulatory inquiry where applicable law so requires.

8. Cooperation. Executive agrees to cooperate fully with the Company or any Company Affiliate in connection with its actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters arising from events, acts, or failures to act that occurred during the period of her employment by the Company. Such cooperation includes, without limitation, making herself available to the Company upon reasonable notice, without subpoena, to consult on such matters and provide truthful and accurate information in witness interviews, declarations and depositions and trial testimony (including reasonable preparation thereto) relating to such matters. The Company will reimburse Executive for reasonable out-of-pocket expenses she incurs in connection with any such cooperation (excluding foregone wages, salary, or other compensation) and will make reasonable efforts to accommodate her scheduling needs. Executive shall receive no additional compensation for providing such cooperation; provided that, such cooperation shall be upon reasonable notice to Executive and subject to Executive's reasonable availability.

9. Government Reporting and Cooperation Permitted. Nothing in this Agreement will be construed to prohibit Executive from filing a charge with, reporting possible violations to, or participating or cooperating with any governmental agency or entity, including but not limited to the Equal Employment Opportunity Commission (EEOC), the Department of Justice, the Securities and Exchange Commission, Congress, or any agency Inspector General, or making other disclosures that are protected under the whistleblower, anti-discrimination, or anti-retaliation provisions of federal, state or local law or regulation; provided, however, that Executive may not disclose information of the Company that is protected by the attorney-client privilege, except as expressly authorized by law. Executive does not need the prior authorization

of the Company to make any such reports or disclosures and Executive is not required to notify the Company that she has made such reports or disclosures.

10. No Admission. This Agreement is not an admission by any party of any violation of law or intention to violate any law.

11. Acceptance Date, Period for Review, and Consultation. By signing this Agreement, Executive acknowledges that Executive has read this Agreement, understands all of its provisions, and knowingly and voluntarily agrees to all of its terms and provisions. Executive has been advised by the Company to consult with an attorney regarding this Agreement before signing it. Executive has been given twenty-one (21) days after the date on which Executive received this Agreement to decide whether to sign it. Executive is further advised that the releases Executive is providing in this Agreement include a release of any claims under the Age Discrimination in Employment Act.

12. Revocation Period and Effective Date. Once Executive has signed this Agreement, Executive may still revoke it at any time during the seven (7) day period after Executive signed this Agreement, by delivering written notice of revocation to the Company within this seven–day period. This Agreement shall not become effective or enforceable until this revocation period has expired without Executive having revoked this Agreement. Once this revocation period expires, so long as Executive has not revoked this Agreement and so long as the Company has also executed it, it will be a binding, irrevocable agreement between Executive and the Company (the "***Effective Date***").

13. Notice. Any notice or delivery to the Company under this Agreement shall be made to:

Pandora Media, Inc.
2100 Franklin St., 7th Floor
Oakland, CA 94612
Attention: General Counsel

Any notice or delivery to Executive under this Agreement shall be made to Executive's last known address on file with the Company.

14. Entire Agreement. This Agreement constitutes the complete understanding between the Company and Executive relating to Executive's separation of employment, and Executive is not relying on any statement other than the provisions of this Agreement in deciding to sign this Agreement. No other promises or agreements shall be binding unless in a writing signed by the parties to this Agreement. This Agreement cancels and supersedes the Offer Letter and any other prior agreement between the Company and Executive except as specifically provided herein.

15. Amendments. Any amendment or modification to or waiver of this Agreement will be effective only if it is in writing and signed by each of the Company and Executive.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

17. Governing Law. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of California without regard to conflict of laws principles.

18. Binding Arbitration.

(a) Any and all controversies, disputes, or claims, arising out of, or relating to, the validity, interpretation, enforceability, or performance of this Agreement will be solely and finally settled by means of binding arbitration in the State of California. Any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("JAMS"), pursuant to its Employment Arbitration Rules and Procedures (the "JAMS Rules") in effect at the time of the arbitration demand. A current copy of the JAMS Rules may be found at http://www.jamsadr.com/rules-employment-arbitration/. The parties expressly agree that any arbitration under this Agreement shall take place exclusively in Alameda County, in the State of California, unless the parties mutually agree (in writing) to an alternative location. The arbitrator shall be selected by mutual agreement of the parties. Unless the parties mutually agree otherwise, the arbitrator shall be an attorney licensed to practice in the State of California, or a retired federal or state judicial officer who presided in the jurisdiction where the arbitration will be conducted.

(b) The party bringing the claim must demand arbitration in writing and deliver the written demand by hand or first class mail to the other party within the applicable statute of limitations period. The arbitrator shall resolve all disputes regarding the timeliness or propriety of the demand for arbitration. In arbitration, the parties will have the right to conduct adequate civil discovery, bring dispositive motions, and present witnesses and evidence, as needed to present their cases and defenses, and any disputes in this regard shall be resolved by the arbitrator. Each party will pay the fees for the party's own attorneys, subject to any remedies to which that party may later be entitled under applicable law. The arbitrator's fees and expenses, and all associated JAMS arbitration fees and expenses shall be apportioned between the parties in accordance with the JAMS Rules. It is agreed that each party will pay its own attorneys' fees and costs (other than the arbitrator's fees and expenses and associated JAMS fees) incurred. It is further agreed that the prevailing party shall be entitled to judicial relief from a court of competent jurisdiction to enforce the arbitration award. The parties hereby agree to waive their rights to have any dispute under this Agreement resolved by a judge or jury.

19. Section 409A. This Agreement and the payments and benefits hereunder are intended to qualify for the short-term deferral and separation pay plan exception to Section 409A of the Internal Revenue Code of 1986, as amended (the "***Code***"), and all regulations, rulings and other guidance issued thereunder, all as amended and in effect from time to time ("***Section 409A***"), described in Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(9)(iii) to the maximum extent possible. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to comply with Section 409A. Without

limiting the generality of the foregoing, if on the date of termination of employment, Executive is a “specified employee” within the meaning of Section 409A as determined in accordance with the Company’s procedures for making such determination, to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following the Resignation Date shall instead be paid on the first business day after the date that is six (6) months following the Resignation Date. All references in this paragraph to “Resignation Date” shall mean separation from service as an employee within the meaning of Section 409A(a)(2)(A)(i) of the Code and Treasury Regulation Section 1.409A-1(h). The Company makes no representation or warranty and shall have no liability to Executive or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A but do not satisfy an exemption from, or the conditions of, Section 409A. Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Agreement is determined to be subject to Section 409A, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which Executive incurred such expenses, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

[Signature Page Follows]

***NOT TO BE SIGNED UNTIL ON/AFTER THE SEPARATION DATE***

The foregoing Agreement is executed by the parties as follows:

PANDORA MEDIA, INC. SARA CLEMENS

By: /s/ Steve Bené By: /s/ Sara Clemens
Signature Signature

Name: Steve Bené

Title: General Counsel

Date: February 1, 2017 Date: February 1, 2017

**<u>Schedule 3(e)(i)</u>**

**Outstanding Stock Options to Be Accelerated under the Terms of the Agreement**

| Product ID | Grant ID | Grant Type | Grant Date | Grant Price | Options Granted | Exercisable Options 2/1/2017 | Stock options to be accelerated under the terms of the Agreement |
|---|---|---|---|---|---|---|---|
| 2011SO | 1209 | NQ | 2/24/14 | $37.26 | 110,000 | 80,208 | 13,750 |

**Schedule 3(e)(ii)**

**Outstanding Non-Performance-Based Restricted Stock Units to Be Accelerated under the Terms of the Agreement**

| Product ID | Grant ID | Grant Type | Grant Date | Units Granted | Units released prior to 2/1/2017 | Units to be accelerated under the terms of the Agreement |
|---|---|---|---|---|---|---|
| 2011RU16 | RU03188 | RSU | 2/24/14 | 60,000 | 30,000 | 30,000 |
| 2011RU16 | RU05018 | RSU | 3/11/15 | 115,000 | 50,312 | 35,938 |
| 2011RU16 | RU07500 | RSU | 4/15/16 | 200,000 | 0 | 100,000 |

**<u>Schedule 3(e)(iii)</u>**

**Outstanding Performance-Based Restricted Stock Units
Eligibile for Continued Vesting under the Terms of the Agreement**

| Product Type | Grant ID | Grant Type | Grant Date | Units Granted | Units subject to continued vesting eligibility under the terms of the Agreement |
|---|---|---|---|---|---|
| PSUSECT16 | PS000014 | PSU | 4/15/16 | 200,000 | *62,500 |

* Actual shares vest based on the achievement of the performance-based vesting conditions on the February 15, 2017 and May 15, 2017 Vesting Dates.

PANDORA®

June 3, 2014

David Gerbitz

Re: Employment Offer

Dear David:

On behalf of Pandora Media, Inc. (the "Company"), we are pleased to offer you the position of Executive Vice President, Revenue Operations. This letter agreement sets forth the terms and conditions of your employment with the Company ("Agreement") if you accept and commence such employment. Please understand that this offer, if not accepted, will expire on **Monday, June 9, 2014**.

**1. Responsibilities; Duties.** You are expected to begin work on **Monday, July 7, 2014** (the "Start Date"). You are required to faithfully and conscientiously perform your assigned duties and to diligently observe all your obligations to the Company. You agree to devote your full business time and efforts, energy and skill to your employment at the Company, and you agree to apply all your skill and experience to the performance of your duties and advancing Company's interests. During your employment with the Company, you may not perform services as an employee or consultant of any other competitive organization and you will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the business or proposed business of the Company. Any other outside relationships you engage in should be made known to the Company's General Counsel and CEO in writing. You shall comply with and be bound by Company's operating policies, procedures, and practices from time to time in effect during your employment.

**2. Compensation.** In consideration for rendering services to the Company during the term of your employment and fulfilling your obligations under this Agreement, you will be eligible to receive the benefits set forth in this Agreement.

a. Base Salary. In this exempt full-time position, you will earn an annual base salary of $325,000 (prorated for any partial pay period that occurs during the term of your employment), subject to applicable tax withholdings. Your salary will be payable pursuant to the Company's regular payroll policy.

b. Business Expenses. The Company shall, upon submission and approval of written statements and bills in accordance with the then regular procedures of the Company, pay or reimburse you for any and all necessary, customary and usual expenses incurred by you while traveling for or on behalf of the Company, and any and all other necessary, customary or usual expenses (including entertainment) incurred by you for or on behalf of the Company in the normal course of business, as determined to be appropriate by the Company. It is your responsibility to review and comply with the Company's business expense reimbursement policies.

c. Performance Bonus. You will eligible to participate in the Corporate Incentive Plan (CIP) with a target bonus of 50% of your base salary prorated to your start date. The actual bonus amount paid will be determined in the sole and absolute discretion of the Company's Compensation Committee. Any bonus eligibility for future years will be subject to the terms and conditions of any bonus or incentive compensation plan that the Company adopts at a later time. Nothing hereunder shall be construed or interpreted as a guarantee for you to receive any bonuses or incentive compensation.

d. Sign-on Bonus. To the extent that you commence employment on the Start Date, you will be eligible to receive a one-time signing bonus in the gross amount of $100,000 subject to applicable tax withholdings. $50,000 of this bonus shall be paid no later than 30 days following your start date at the Company. The remaining $50,000 shall be paid no later than 7 days following your 6 month anniversary date. This bonus is offered as an incentive for you to stay with the Company. Therefore, if you terminate your employment with the Company within 12 months of your Start Date or if you are terminated by the Company for "Cause" (as defined below) within 12 months of your Start Date, you shall be required to pay back the Company the entire sum of this signing bonus. The Company is authorized to deduct and offset repayment of this bonus against any sums which are then due to you at the time of your termination, to the extent permitted by applicable laws. For purposes of this agreement, **"Cause"** shall mean (i) a failure or a refusal to comply in any material respect with the reasonable policies, standards or regulations of Company; (ii) unprofessional, unethical or fraudulent conduct or conduct that materially discredits Company or is materially detrimental to the reputation, character or standing of Company; (iii) dishonest conduct or a deliberate attempt to do an injury to Company; (iv) your material breach of this Agreement or any breach of confidentiality or proprietary information agreements with the Company, including, without limitation, theft of Company's proprietary information; (v) an unlawful or criminal act which would reflect badly on Company in Company's reasonable judgment; or (vi) absence from work without an approved leave.

**3. Employee Benefits.** You will be eligible to participate in any employee benefit plans or programs maintained or established by the Company including, but not limited to, paid time off, group health benefits, life insurance, dental plan, and other benefits made available generally to employees, subject to eligibility requirements and the applicable terms and conditions of the plan or program in question and the determination of any committee administering such plan or program. To the extent approved by the Board of Directors or its Compensation Committee from time to time, you will be eligible for any severance or change in control policy of the Company that is then applicable to similarly situated U.S. employees. You will be asked to sign an Indemnification Agreement with the Company and be subject to the terms and conditions thereof. You will be an "Eligible Officer" under the Company's Executive Severance and Change in Control Policy ("Severance Policy") and be subject to the terms and conditions thereof, which include, but are not limited to, the severance provisions set forth below:

a. Non-change in control severance. If the Eligible Officer is terminated by reason of an Involuntary Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 6 months of salary, health benefits and accelerated vesting of equity awards, plus a prorated annual bonus for the year of termination and outplacement services.

b. Change in control severance. If Eligible Officer is terminated by reason of a Change of Control Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 12 months of salary and health benefits, 100% accelerated vesting of equity awards and the opportunity to extend the exercise period of certain options for up to 12 months following termination, plus a prorated annual bonus for the year of termination and outplacement services.

**4. Stock Option.** In connection with the commencement of your employment, the Company Will recommend that the Board of Directors grant you the following equity grants subject to the terms of the Company's equity plan:

a. Stock options (the "Options") to purchase 65,000 shares of the Company's Common Stock with an exercise price equal to the fair market value on the date of the grant. The Option shares will vest and become exercisable at the rate of 25% of the total number of shares on the twelve (12) month anniversary of your Vesting Commencement Date (as defined in the Stock Option Agreement to be executed between you and the Company, which date will be your Start Date, as defined below) and 1/48th of the total number of shares each month thereafter on the monthly anniversary of the Vesting Commencement Date. Vesting will, of course, depend on your continued employment with the Company.

b. Restricted Stock Units (the "RSUs") representing the right to receive 35,000 shares of the Company's common stock. Each year, 25% of the RSUs granted will vest starting with the first standard quarterly Company vesting date that is approximately one year after the grant date and continuing quarterly for three years thereafter. Vesting will depend on your continued employment with the Company on the applicable vesting dates.

**5. At-Will Employment.** Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time without notice and for any reason or no reason, without further obligation or liability. Further, your continued employment as well as your participation in any benefit programs does not assure you of continuing employment with the Company. The Company also reserves the right to modify or amend the terms of your employment, compensation and benefit plans at any time for any reason. This policy of at-will employment is the entire agreement as to the duration of your employment and may only be modified in an express written agreement signed by the Chief Executive Officer of the Company.

**6. Pre-employment Conditions.**

a. Confidentiality Agreement. Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company's Confidential Information and Invention Assignment Agreement, a copy of which is enclosed for your review and execution (the "Confidentiality Agreement"), prior to or on your Start Date.

b. Right to Work. For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us no later than your Start Date, or our employment relationship with you may be terminated.

c. Verification of Information. This offer of employment is also contingent upon the successful verification of the information you provided to the Company during your application process, as well as a general background check performed by the Company to confirm your suitability for employment. By accepting this offer of employment, you warrant that all information provided by you is true and correct to the best of your knowledge, and you expressly release all parties from any and all liability for damages that may result from obtaining, furnishing, collecting or verifying such information, as well as from the use of or disclosure of such information by the Company or its agents. You have a right to review copies of any public records obtained by the Company in conducting this verification process unless you check the box below.

_______ I hereby waive my right to receive any public records as described above.

**7. No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that performance of your duties to the Company and the terms of this Agreement and the Confidentiality Agreement will not breach any other agreement (written or oral) to which you are a party (including without limitation, current or past employers) and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement which may result in a conflict of interest or may otherwise be in conflict with any of the provisions of this Agreement, the Confidentiality Agreement or the Company's policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires. To the extent that you are bound by any such obligations, you must inform the Company immediately prior to accepting this Agreement.

**8.** **General Obligations.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. Please note that the Company is an equal opportunity employer. The Company does not permit, and will not tolerate, the unlawful discrimination or harassment of any employees, consultants, or related third parties on the basis of sex, race, color, religion, age, national origin or ancestry, marital status, veteran status, mental or physical disability or medical condition, sexual orientation, pregnancy, childbirth or related medical condition, or any other status protected by applicable law. Any questions regarding this EEO statement should be directed to Human Resources.

**9.** **Termination Obligations.**

a. You agree that all property, including, without limitation, all equipment, proprietary information, documents, books, records, reports, notes, contracts, lists, computer disks (and other computer-generated files and data), and copies thereof, created on any medium and furnished to, obtained by, or prepared by you in the course of or incident to your employment, belongs to the Company and shall be returned to the Company promptly upon any termination of your employment, or sooner if so requested by the Company.

b. Upon your termination of your employment with the Company for any reason, if applicable, you will resign in writing (or be deemed to have resigned) from all other offices directorships then held with the Company or any affiliate of the Company, unless otherwise agreed with the Company.

c. Following the termination of your employment with the Company for any reason, you shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees of the Company. You shall also cooperate m the defense of any action brought by any third party against the Company. If necessary, the shall pay you for your time incurred to comply with this provision at a reasonable per diem or per hour rate as to be determined by the Company.

d. Following termination of your employment with the Company for any reason,you agree that you wiII not at any time make any statements or comments (written or oral) to any third party or take disparaging the integrity or reputation of the Company or any of its subsidiaries, officers, .directors, stockholders or affiliates. You also agree that you will not do or say anything that could disrupt the good morale of the employees of any of the companies listed above or harm their respective businesses or reputations of the companies and persons listed above.

**10.** **Miscellaneous Terms.**

a. Entire Agreement. This Agreement, together with its Attachment A (the Confidentiality Agreement), set forth the entire terms of your employment with the Company (other than the Equity Plan Documents) and supersede any prior representations or agreements, whether written or oral.

b. Governing Law. This Agreement will be governed by the laws of California, without regard to its conflict of laws provisions. This Agreement may not be modified or amended except by a written agreement, signed by the CEO (or his authorized representative) of the Company.

c. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

d. Severability. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to law, and wherever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event, any provision of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event that any part, article, paragraph or clause of this Agreement shall be held to be indefinite or invalid, the entire Agreement shall not fail on account thereof, and the balance of the Agreement shall continue in full force and effect.

e. Waiver. Failure or delay of either party to insist upon compliance with any provision hereof will not operate as, and is not to be construed as, a waiver or amendment of such provision or the right of the aggrieved party to insist upon compliance with such provision or to take remedial steps to recover damages or other relief for noncompliance. Any express waiver of any provision of this Agreement will not operate and is not to be construed as a waiver of any subsequent breach, whether occurring under similar or dissimilar circumstances.

We are all delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of the Company's offer, please sign and date this Agreement in the space provided below and return it to me, along with a signed and dated original copy of the Confidentiality Agreement, prior to the expiration date specified in the opening paragraph of this Agreement.

Very truly yours,

PANDORA MEDIA, INC.

By: /s/ Brian McAndrews_____
Name: Brian McAndrews
Title: Chief Executive Officer

**ACCEPTED AND AGREED:**

I have read this offer and agree to accept employment with Company under the terms set forth in this Agreement.

PANDORA

David Gerbitz

/s/ David Gerbitz
Signature

06/03/14
Date

**Attachment A**

**Confidential Information and Invention Assignment Agreement**

2101 WEBSTER ST • STE 1650 • OAKLAND, CA 94612 | T 510 451 4100 | F 510 451 4286 | PANDORA.COM

February 24, 2017

Naveen Chopra

Re: Employment Offer

Dear Naveen:

On behalf of Pandora Media, Inc. (the "Company"), we are pleased to offer you the position of Chief Financial Officer, reporting to the Chief Executive Officer. This letter agreement sets forth the terms and conditions of your employment with the Company ("Agreement") if you accept and commence such employment. Please understand that this offer, if not accepted, will expire on Monday, February 27, 2017**.** In addition, as this is an executive officer position for the Company, your appointment must be approved by our Board of Directors.

**1. Responsibilities; Duties.** You are expected to begin work on February 28, 2017 (the "Start Date") contingent on successful completion of your background check. You are required to faithfully and conscientiously perform your assigned duties and to diligently observe all your obligations to the Company. You agree to devote your full business time and efforts, energy and skill to your employment at the Company, and you agree to apply all your skill and experience to the performance of your duties and advancing the Company's interests. During your employment with the Company, you may not perform services as an employee, independent contractor, or consultant of any other competitive organization and you will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the business or proposed business of the Company, including any of its subsidiaries. Any other outside business relationships you engage in, including holding a position on the board of directors of another public or private company, should be made known to the Company's General Counsel and Chief Executive Officer (CEO) in writing and approved by them. The Company acknowledges and agrees that you have made known to the Company's General Counsel and CEO your membership on the board of directors of Vonage Holdings Corp. and that such membership has been approved by them, subject to continued compliance with the Company's Code of Business Conduct and Ethics. You shall comply with, and be bound by, the Company's operating policies, procedures, and practices from time to time in effect during your employment.

**2. Compensation**. In consideration for rendering services to the Company during the term of your employment and fulfilling your obligations under this Agreement, you will be eligible to receive the benefits set forth in this Agreement.

a . Base Salary. In this exempt full-time position, you will earn an annualized base salary of $470,000 (prorated for any partial pay period that occurs during the term of your employment), subject to applicable tax withholdings. Your salary will be payable pursuant to the Company's regular payroll policy.

b . Business Expenses. The Company shall, upon submission and approval of written statements and bills in accordance with the then regular procedures of the Company, pay or reimburse you for any and all necessary, customary and usual expenses incurred by you while traveling for, or on behalf of, the Company, and any and all other necessary, customary or usual expenses (including entertainment) incurred by you for or on behalf of the Company in the normal course of business, as determined to be appropriate by the Company. It is your responsibility to review and comply with the Company's business expense reimbursement policies. Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Agreement is determined to be subject to Section 409A of the Internal Revenue Code of 1986, as amended, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which you incurred such expenses, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

c. Performance Bonus. You will be eligible to participate in the Corporate Incentive Plan (CIP) with a target bonus of 60% of your base salary prorated to your start date. This bonus will not be prorated as long as you start your employment with the company before March 31, 2017. The actual bonus amount paid will be determined in the sole and absolute discretion of the Company's Compensation Committee. Any bonus eligibility for future years will be subject to the terms and conditions of any bonus or incentive compensation plan that the Company adopts at a later time. Nothing hereunder shall be construed or interpreted as a guarantee for you to receive any bonuses or incentive compensation.

d. Retention Bonus. To the extent that you commence employment on the Start Date, you will be eligible to receive a one-time retention bonus in the gross amount of $200,000 subject to applicable tax withholdings. $100,000 of this bonus shall be paid no later than thirty (30) days following your Start Date at the Company. The remaining $100,000 shall be paid no later than thirty (30) days following your 6 month anniversary date. This retention bonus is offered as an incentive for you to stay with the Company. Therefore, if you voluntarily terminate your employment with the Company without "Good Reason" (as defined below) within 12 months of your Start Date or if you are terminated by the Company for "Cause" (as defined below) within 12 months of your Start Date, you shall be required to pay back to the Company the entire sum of this retention bonus. By accepting this offer, you expressly agree that the Company is authorized to deduct and offset repayment of this retention bonus against any sums which are then due to you from the Company at the time of your termination, to the extent permitted by applicable laws. Notwithstanding the foregoing, any then unpaid portion of your retention bonus shall be paid to you within thirty (30) days of the earliest of (i) a Change of Control (as defined in the Pandora Media, Inc. 2011 Equity Incentive Plan (the "Equity Plan"), (ii) the Company's termination of your employment without Cause or (iii) your resignation of employment with the Company for Good Reason, and in such event no portion of the retention bonus shall be subject to any repayment obligation by you. You and the Company agree that the payment of any portion of your retention bonus in accordance with the preceding sentence shall not be a "severance benefit" for purposes of Section 8(a) of the Severance Policy (as defined below).

For purposes of this Section 2(d) of this Agreement, "Cause" shall mean (i) a willful failure or a refusal to comply in any material respect with the reasonable policies, standards or regulations of the Company, provided that, the Company provides you a fifteen (15) day cure period to remedy such failure or refusal; (ii) unprofessional, unethical or fraudulent conduct or conduct that materially discredits the Company or is materially detrimental to the reputation, character or standing of the Company; (iii) dishonest conduct or a deliberate attempt to do an injury to the Company; (iv) your material breach of this Agreement or any breach of confidentiality or proprietary information agreements with the Company, including, without limitation, theft of the Company's proprietary information; (v) an unlawful or criminal act which reflects badly, or would, if known, reflect badly on the Company in the Company's reasonable judgment; or (vi) repeated absence from work without an approved leave, resulting in a job abandonment.

In addition, for purposes of this Section 2(d) of this Agreement, "Good Reason" shall mean your resignation from employment after the occurrence of one of the following events without your consent: (A) a material reduction of your base salary or target annual CIP bonus, which is not part of a broad cost cutting effort by the Company; (B) any requirement by the Company that you engage in any illegal or unethical conduct, after you have given the Company thirty (30) days' notice and opportunity to cure; (C) the Company's failure to fully cure within thirty (30) days any material breach by the Company of this Agreement which you have notified the Company in writing; (D) a material diminution in your duties or responsibilities or (E) a relocation of your principal place of employment by more than fifty (50) miles; provided that in any event, you must notify the Company of the event constituting Good Reason within 90 days and give the Company 30 days to cure (to the extent capable of cure), and then, if not cured by the Company, you resign within 30 days thereafter.

**3. Employee Benefits.** You will be eligible to participate in any employee benefit plans or programs maintained, or established, by the Company including, but not limited to, paid time off, group health benefits, life insurance, dental plan, 401(k) and other benefits made available generally to employees, subject to eligibility requirements and the applicable terms and conditions of the plan or program in question and the determination of any committee administering such plan or program. To the extent approved by the Board of Directors or its Compensation Committee from time to time, you will be eligible for any severance or change in control policy of the Company that is then applicable to similarly situated U.S. employees. You will be asked to sign an Indemnification Agreement with the Company and be subject to the terms and conditions thereof. You will be an "Eligible Officer" under the Company's Executive Severance and Change in Control Policy ("Severance Policy") and be subject to the terms and conditions thereof. A copy of the Severance Policy (which may be amended from time to time at the discretion of the Board of Directors, or its delegate, in accordance with the terms of the Severance Policy) is attached for your reference.

**4. Equity Grant.** Contingent upon the commencement of your employment on the Start Date, the Company will grant you the following equity grants subject to the terms of the Equity Plan:

a. **Restricted Stock Units.** An equity award with an intended value of approximately $5,600,000, which will be converted to a number of restricted stock units ("RSUs") prior to the grant date (which will be your Start Date) using the Company's standard conversion methodology. This equity award will be based on a conversion price of $12.84, representing the average closing stock price of the Company's common stock for the thirty (30) calendar day period ending January 31, 2017, rounded up to the nearest whole RSU. This conversion will result in a recommended grant for you of 436,138 RSUs. Twenty-five percent (25%) of the RSUs will vest on the first standard quarterly Company vesting date that is approximately one (1) year after the grant date and 6.25% of the RSUs will vest quarterly thereafter. Assuming you commence your employment on the Start Date, the vesting date for the first 25% of the RSUs will be February 15, 2018.

b. **Stock Options** (the "Options"). An option to purchase a number of shares of Company Common Stock to be determined by dividing $1,400,000 by the Black-Scholes value-per-share of an option to purchase Company Common Stock (calculated as of the date of grant using the method and inputs consistent with those used by the Company for financial statement purposes). The option will have an exercise price equal to the closing price per share of the Company's Common Stock on the date of grant (as reported by the NYSE). The Option shares will vest and become exercisable at the rate of 25% of the total number of shares on the twelve (12) month anniversary of your Vesting Commencement Date (as defined in the Stock Option Agreement to be executed between you and the Company, which date will be your Start Date) and 1/48th of the total number of shares each month thereafter on the monthly anniversary of the Vesting Commencement Date.

c. Vesting of both the RSUs and the Options will, of course, depend on your continued employment with the Company on the applicable vesting dates, except as otherwise provided in the Severance Policy. The awards will be subject to the terms of the Equity Plan and the Restricted Stock Unit Agreement and Stock Option Agreement between you and the Company. You understand that issuing the RSUs and the Options described in this Agreement is expressly contingent on receipt of a fully executed Restricted Stock Unit Agreement and Stock Option Agreement and any related documents as may be requested by the Company.

**5. At-Will Employment.** Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time without notice and for any reason or no reason, without further obligation or liability. Further, your continued employment as well as your participation in any benefit programs does not assure you of continuing employment with the Company. The Company also reserves the right to modify or amend the terms of your employment, compensation and benefit plans at any time for any reason. This policy of at-will employment is the entire agreement as to the duration of your employment and may only be modified in an express written agreement signed by the Chief Executive Officer of the Company.

**6. Pre-employment Conditions.**

a. **Confidentiality Agreement.** Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company's Confidential Information and Invention Assignment Agreement, a copy of which is enclosed as **Attachment A** for your review and execution (the "Confidentiality Agreement"), prior to or on your Start Date.

b. **Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United

States. Such documentation must be provided to us no later than your Start Date, or our employment relationship with you may be terminated.

c . **<u>Verification of Information</u>.** This offer of employment is also contingent upon the successful verification of the information you provided to the Company during your application process, as well as a background check performed by the Company to confirm your suitability for employment. By accepting this offer of employment, you warrant that all information provided by you is true and correct to the best of your knowledge, and you expressly release all parties from any and all liability for damages that may result from obtaining, furnishing, collecting or verifying such information, as well as from the use of or disclosure of such information by the Company or its agents. You have a right to review copies of any public records obtained by the Company in conducting this verification process unless you check the box below.

I hereby waive my right to receive any public records as described above.

**7. <u>No Conflicting Obligations</u>.** You understand and agree that by accepting this offer of employment, you represent to the Company that performance of your duties to the Company and the terms of this Agreement and the Confidentiality Agreement will not breach any other agreement (written or oral) to which you are a party (including without limitation, current or past employers) and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement which may result in a conflict of interest or may otherwise be in conflict with any of the provisions of this Agreement, the Confidentiality Agreement or the Company's policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires. To the extent that you are bound by any such obligations, you must inform the Company immediately prior to accepting this Agreement. The Company acknowledges and agrees that is has been informed of your non-solicitation obligations with respect to TiVo, Inc., as set forth in the agreement between you and Tivo, Inc. dated January 30, 2016.

**8. <u>General Obligations</u>.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. Please note that the Company is an equal opportunity employer. The Company does not permit, and will not tolerate, the unlawful discrimination or harassment of any employees, applicants, consultants, or related third parties on the basis of sex, gender, gender identity, gender expression, sex stereotype, transgender, race, color, religion or religious creed, age, national origin or ancestry, marital status, military or protected veteran status, immigration status, mental or physical disability or medical condition, genetic information, sexual orientation, pregnancy, childbirth or related medical condition, or any other status protected by applicable law. Any questions regarding this EEO statement should be directed to Human Resources.

**9. <u>Termination Obligations</u>**.

a. You agree that all property, including, without limitation, all equipment, proprietary information, documents, books, records, reports, notes, contracts, lists, computer disks (and other computer-generated files and data), and copies thereof, created on any medium and furnished to, obtained by, or prepared by you in the course of or incident to your employment with the Company, belongs to the Company and shall be returned to the Company promptly upon any termination of your employment, or sooner if so requested by the Company.

b. Upon your termination of your employment with the Company for any reason, if applicable, you will resign in writing (or be deemed to have resigned) from all other offices and directorships then held with the Company or any affiliate of the Company, unless otherwise agreed with the Company.

c. Following the termination of your employment with the Company for any reason, you shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees of the Company. You shall also cooperate in the defense of any action brought by any third party against the Company. If necessary, the Company shall pay you for your time incurred to comply with this provision at a reasonable per diem or per hour rate as to be mutually determined between you and the Company.

**10. Miscellaneous Terms**.

a. Indemnification/Insurance. You will be eligible for indemnification in accordance with the Company's Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws (as each may be amended). You will be provided with the Company's form indemnification agreement, consistent with what has been entered into by executive officers and directors of the Company. During the term of your employment, the Company shall obtain and maintain satisfactory directors and officers' liability insurance for the benefit of the officers and directors of the Company.

b. Entire Agreement. This Agreement, together with its **Attachment A** (the Confidentiality Agreement), set forth the entire terms of your employment with the Company (other than the Equity Incentive Plan and the Restricted and Stock Option Agreements between you and the Company) and supersede any prior representations or agreements, whether written or oral.

c. Governing Law. This Agreement will be governed by the laws of California, without regard to its conflict of laws provisions. This Agreement may not be modified or amended except by a written agreement, signed by the CEO (or his authorized representative) of the Company.

d. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

e. Severability. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to law, and wherever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event, any provision of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event that any part, article, paragraph or clause of this Agreement shall be held to be indefinite or invalid, the entire Agreement shall not fail on account thereof, and the balance of the Agreement shall continue in full force and effect.

f. Waiver. Failure or delay of either party to insist upon compliance with any provision hereof will not operate as, and is not to be construed as, a waiver or amendment of such provision or the right of the aggrieved party to insist upon compliance with such provision or to take remedial steps to recover damages or other relief for noncompliance. Any express waiver of any provision of this Agreement will not operate and is not to be construed as a waiver of any subsequent breach, whether occurring under similar or dissimilar circumstances.

g. Attorneys' Fees. The Company will pay directly or reimburse you for reasonable legal fees and costs incurred in connection with negotiating and reviewing this letter and any related documents or matters, with the Company's reimbursement not to exceed ten thousand ($10,000).

We are all delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of the Company's offer, please sign and date this Agreement in the space provided below and return it to me, along with a signed and dated original copy of the Confidentiality Agreement, prior to the expiration date specified in the opening paragraph of this Agreement.

Very truly yours,

PANDORA MEDIA, INC.

By: /s/ Tim Westergren

Name: Tim Westergren
Title: Chief Executive Officer

**ACCEPTED AND AGREED:**

I have read this offer and agree to accept employment with Company under the terms set forth in this Agreement.

Naveen Chopra

/s/ Naveen Chopra
Signature

February 27, 2017
Date

pandora®

**Attachment A**

**Confidential Information and Invention Assignment Agreement**

**Exhibit 31.01**

**Certification of Principal Executive Officer**
**Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Tim Westergren, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pandora Media, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2017

/s/ Tim Westergren

| | |
|---|---|
| Name: | Tim Westergren |
| Title: | *Chief Executive Officer (Principal Executive Officer)* |

**Exhibit 31.02**

**Certification of Principal Financial Officer**
**Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Naveen Chopra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pandora Media, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2017

/s/ Naveen Chopra

| | |
|---|---|
| Name: | Naveen Chopra |
| Title: | *Chief Financial Officer (Principal Financial Officer)* |

**Exhibit 32.01**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with this Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the “Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Each of the undersigned certifies that, to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Pandora Media, Inc.

May 8, 2017

/s/ Tim Westergren

| | |
|---|---|
| Name: | Tim Westergren |
| Title: | *Chief Executive Officer (Principal Executive Officer)* |

/s/ Naveen Chopra

| | |
|---|---|
| Name: | Naveen Chopra |
| Title: | *Chief Financial Officer (Principal Financial Officer)* |

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.