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, 2016

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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The number of shares of registrant's common stock outstanding as ofApril 28, 2016 was: 228,777,595.

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, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 334,667	$ 303,454
Short-term investments	35,844	45,805
Accounts receivable, net of allowance of $2,165 at December 31, 2015 and $2,739 at March 31, 2016	277,075	237,760
Prepaid expenses and other current assets	35,920	48,182
Total current assets	683,506	635,201
Long-term investments	46,369	33,238
Property and equipment, net	66,370	81,412
Goodwill	303,875	304,787
Intangible assets, net	110,745	105,843
Other long-term assets	29,792	31,860
Total assets	$ 1,240,657	$ 1,192,341
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 17,897	$ 9,922
Accrued liabilities	37,185	35,375
Accrued royalties	97,390	111,554
Deferred revenue	19,939	27,579
Accrued compensation	43,788	43,938
Other current liabilities	15,632	23,044
Total current liabilities	231,831	251,412
Long-term debt, net	234,577	239,011
Other long-term liabilities	30,862	31,521
Total liabilities	497,270	521,944
Stockholders' equity		
Common stock: 224,970,412 shares issued and outstanding at December 31, 2015 and 228,750,220 at March 31, 2016	23	23
Additional paid-in capital	1,110,539	1,152,577
Accumulated deficit	(366,658)	(481,760)
Accumulated other comprehensive loss	(517)	(443)
Total stockholders' equity	743,387	670,397
Total liabilities and stockholders' equity	$ 1,240,657	$ 1,192,341

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, 2015	Three months ended March 31, 2016
Revenue		
Advertising	$ 178,739	$ 220,308
Subscription and other	52,025	54,732
Ticketing service	—	22,265
Total revenue	230,764	297,305
Cost of revenue		
Cost of revenue - Content acquisition costs	126,023	171,264
Cost of revenue - Other	16,233	20,999
Cost of revenue - Ticketing service	—	14,646
Total cost of revenue	142,256	206,909
Gross profit	88,508	90,396
Operating expenses		
Product development	15,875	35,846
Sales and marketing	84,274	117,622
General and administrative	36,754	46,296
Total operating expenses	136,903	199,764
Loss from operations	(48,395)	(109,368)
Interest expense	(131)	(6,175)
Other income, net	328	862
Total other income (expense), net	197	(5,313)
Loss before provision for income taxes	(48,198)	(114,681)
Provision for income taxes	(59)	(421)
Net loss	$ (48,257)	$ (115,102)
Weighted-average common shares outstanding used in computing basic and diluted net loss per share	209,928	226,659
Net loss per share, basic and diluted	$ (0.23)	$ (0.51)

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,	
	2015	**2016**
Net loss	$ (48,257)	$ (115,102)
Change in foreign currency translation adjustment	(99)	(233)
Change in net unrealized gains on marketable securities	558	305
Other comprehensive income	459	72
Total comprehensive loss	$ (47,798)	$ (115,030)

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

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

	Three months ended March 31,	
	2015	**2016**
Operating activities		
Net loss	$ (48,257)	$ (115,102)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	4,340	13,277
Stock-based compensation	23,195	38,655
Amortization of premium on investments, net	619	140
Other operating activities	834	895
Amortization of debt discount	—	4,434
Changes in operating assets and liabilities		
Accounts receivable	29,182	38,514
Prepaid expenses and other assets	(5,076)	(19,742)
Accounts payable, accrued and other current liabilities	8,087	(3,467)
Accrued royalties	6,896	14,152
Accrued compensation	(4,390)	2,597
Other long-term liabilities	(1,526)	659
Deferred revenue	12,328	7,640
Reimbursement of cost of leasehold improvements	749	4,244
Net cash provided by (used in) operating activities	26,981	(13,104)
Investing activities		
Purchases of property and equipment	(4,339)	(14,371)
Internal-use software costs	(1,592)	(7,177)
Purchases of investments	(56,790)	(4,993)
Proceeds from maturities of investments	78,489	8,332
Proceeds from sale of investments	640	—
Payments related to acquisition, net of cash acquired	—	(676)
Net cash provided by (used in) investing activities	16,408	(18,885)
Financing activities		
Proceeds from employee stock purchase plan	1,619	1,687
Proceeds from exercise of stock options	1,094	520
Tax payments from net share settlements of restricted stock units	(888)	(1,294)
Net cash provided by financing activities	1,825	913
Effect of exchange rate changes on cash and cash equivalents	(157)	(137)
Net increase (decrease) in cash and cash equivalents	45,057	(31,213)
Cash and cash equivalents at beginning of period	175,957	334,667
Cash and cash equivalents at end of period	$ 221,014	$ 303,454
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ 83	$ 107
Purchases of property and equipment recorded in accounts payable and accrued liabilities	$ 2,783	$ 6,356

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

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. Our vision is to be the definitive source of music discovery and enjoyment for billions. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising 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 by offering an advertising-free subscription service which we call Pandora One. 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 operate in Australia, New Zealand and Canada.

Ticketing Service

Ticketfly is a leading live events technology company that provides ticketing and marketing software and services for 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. We completed the acquisition of Ticketfly on October 31, 2015.

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, 2015.

Certain changes in presentation have been made to conform the prior period presentation to current period reporting. We have reclassified certain amounts from the accounts payable, accrued and other current liabilities line item to the long-term liabilities line item of our condensed consolidated statements of cash flows. We have also reclassified internal-use software costs from the purchases of property and equipment line item to the internal-use software costs line item of our condensed consolidated statements of cash flows. Lastly, we have reclassified interest expense from the other income (expense), net line item to the interest expense line item 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 royalties, selling prices for elements sold in multiple-element arrangements, the allowance for doubtful accounts, the fair value of stock options, market stock units ("MSUs") and the Employee Stock Purchase Plan ("ESPP"), the provision for (benefit from) income taxes and the impact of forfeitures on stock-based compensation. 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.

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

2. Summary of Significant Accounting Policies

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, 2015.

Concentration of Credit Risk

For the three months ended March 31, 2015 and 2016, we had no customers that accounted for more than 10% of our total revenue. As of December 31, 2015 and March 31, 2016, we had no customers that accounted for more than 10% of our total accounts receivable.

Recently Issued 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. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within that fiscal year, although early adoption is permitted. We are currently evaluating implementation methods and the effect that implementation of this standard will have on our consolidated financial statements upon adoption.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Going Concern (Subtopic 205-40)* (“ASU 2014-15”). ASU 2014-15 requires management of all entities to evaluate whether there are conditions and events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). The guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within that fiscal year. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-9”). ASU 2014-9 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. The standard may be 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 are currently evaluating implementation methods and the effect that implementation of this standard will have on our consolidated financial statements upon 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 are currently evaluating implementation methods and the effect that implementation of this standard will have on our consolidated financial statements upon adoption.

3. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments consisted of the following:

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

	As of December 31, 2015	As of March 31, 2016
	(in thousands)	
Cash and cash equivalents		
Cash	$ 104,361	$ 109,287
Money market funds	180,021	112,561
Commercial paper	31,089	68,547
Corporate debt securities	2,000	11,058
U.S. government and government agency debt securities	17,196	2,001
Total cash and cash equivalents	$ 334,667	$ 303,454
Short-term investments		
Commercial paper	$ 4,792	$ 8,795
Corporate debt securities	31,052	37,010
Total short-term investments	$ 35,844	$ 45,805
Long-term investments		
Corporate debt securities	$ 46,369	$ 33,238
Total long-term investments	$ 46,369	$ 33,238
Cash, cash equivalents and investments	$ 416,880	$ 382,497

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, 2015 and March 31, 2016.

	As of December 31, 2015			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Money market funds	$ 180,021	$ —	$ —	$ 180,021
Commercial paper	35,881	—	—	35,881
Corporate debt securities	79,760	8	(347)	79,421
U.S. government and government agency debt securities	17,198	—	(2)	17,196
Total cash equivalents and marketable securities	$ 312,860	$ 8	$ (349)	$ 312,519

	As of March 31, 2016			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Money market funds	$ 112,561	$ —	$ —	$ 112,561
Commercial paper	77,342	—	—	77,342
Corporate debt securities	81,342	36	(72)	81,306
U.S. government and government agency debt securities	2,001	—	—	2,001
Total cash equivalents and marketable securities	$ 273,246	$ 36	$ (72)	$ 273,210

The following table presents available-for-sale investments by contractual maturity date as ofDecember 31, 2015 and March 31, 2016.

	As of December 31, 2015	
	Adjusted Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 266,205	$ 266,150
Due after one year through three years	46,655	46,369
Total	$ 312,860	$ 312,519

	As of March 31, 2016	
	Adjusted Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 239,998	$ 239,972
Due after one year through three years	33,248	33,238
Total	$ 273,246	$ 273,210

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, 2015 and March 31, 2016.

	As of December 31, 2015					
	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	$ 64,804	$ (293)	$ 8,531	$ (54)	$ 73,335	$ (347)
U.S. government and government agency debt securities	16,241	(2)	—	—	16,241	(2)
Total	$ 81,045	$ (295)	$ 8,531	$ (54)	$ 89,576	$ (349)

	As of March 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	$ 24,891	$ (30)	$ 19,488	$ (42)	$ 44,379	$ (72)
Total	$ 24,891	$ (30)	$ 19,488	$ (42)	$ 44,379	$ (72)

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, 2016 were primarily a result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. As of March 31, 2016, we owned 37 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, 2016 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, 2016, we did not recognize any impairment charges.

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, 2015 and March 31, 2016:

	As of December 31, 2015		
	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
	(in thousands)		
Assets			
Money market funds	$ 180,021	$ —	$ 180,021
Commercial paper	—	35,881	35,881
Corporate debt securities	—	79,421	79,421
U.S. government and government agency debt securities	—	17,196	17,196
Total assets measured at fair value	$ 180,021	$ 132,498	$ 312,519

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

	As of March 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			
Money market funds	$ 112,561	$ —	$ 112,561
Commercial paper	—	77,342	77,342
Corporate debt securities	—	81,306	81,306
U.S. government and government agency debt securities	—	2,001	2,001
Total assets measured at fair value	$ 112,561	$ 160,649	$ 273,210

Our money market funds are classified as Level 1 within the fair value hierarchy because they are valued primarily using quoted market prices. 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, 2015 and March 31, 2016, we held no Level 3 assets or liabilities.

5. Commitments and Contingencies

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 April 17, 2014, UMG Recordings, Inc., Sony Music Entertainment, Capitol Records, LLC, Warner Music Group Corp. and ABKCO Music and Records, Inc. filed suit against Pandora Media Inc. in the Supreme Court of the State of New York. The complaint claims common law copyright infringement and unfair competition arising from allegations that Pandora owes royalties for the public performance of sound recordings recorded prior to February 15, 1972.

In October 2015, the parties reached an agreement ("pre-1972 settlement") whereby we agreed to pay the plaintiffs a total of$90 million. The settlement resolves all past claims as to our use of pre-1972 recordings owned or controlled by the plaintiffs and enables us, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2016. This agreement was approved by our board of directors and executed on October 21, 2015. Pursuant to this settlement, we paid the plaintiffs $60 million in October 2015 and the plaintiffs dismissed the case with prejudice. As a result, cost of revenue - content acquisition costs increased by $65.4 million in the twelve months ended December 31, 2015, of which$57.9 million was related to a one-time cumulative charge to cost of revenue - content acquisition costs related to pre-1972 spins played through September 30, 2015. The remaining charge of $24.6 million will be recorded in cost of revenue - content acquisition costs in 2016 based on expected streaming of pre-1972 recordings over the period. The pre-72 settlement further requires that we make four additional installment payments of $7.5 million each. The first was paid in December 2015 and the second was paid in March 2016. The remainingtwo installments will be paid on or before July 1, 2016 and October 1, 2016.

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. This motion was denied, and we have appealed the ruling to the Ninth Circuit Court of Appeals. As a result, the district court litigation has been stayed pending the Ninth Circuit's review.

On September 14, 2015, Arthur and Barbara Sheridan, et al filed a class action suit against Pandora Media, Inc. in the federal district court for the Northern District of California. The complaint alleges common law misappropriation, unfair competition, conversion, unjust enrichment and violation of California rights of publicity arising from allegations that we owe royalties for the public performance of sound recordings recorded prior to February 15, 1972. On October 28, 2015, the Court granted the parties' stipulation to stay the district court action pending the Ninth Circuit's review of Pandora's appeal in Flo & Eddie et al. v. Pandora Media, Inc., which involves similar allegations.

On September 16, 2015, Arthur and Barbara Sheridan, et al filed a second class action suit against Pandora Media, Inc. in the federal district court for the Southern District of New York. The complaint alleges common law copyright infringement, violation of New York right of publicity, unfair competition and unjust enrichment arising from allegations that we owe royalties for the public performance of sound recordings recorded prior to February 15, 1972. On October 28, 2015 the Court granted the parties' stipulation to stay the district court action pending the Second Circuit's review of Sirius XM's appeal in the Flo & Eddie et al. v. Sirius XM matter, which involves similar allegations.

On October 17, 2015, Arthur and Barbara Sheridan, et al filed a third class action suit against us in the federal district court for the Northern District of Illinois ("Third Class Action Suit"). The complaint alleges common law copyright infringement, violation of the Illinois Uniform Deceptive Trade Practices Act, conversion, and unjust enrichment arising from allegations that we owe royalties for the public performance of sound recordings recorded prior to February 15, 1972. On December 29, 2015, Pandora filed a motion to dismiss and motion to stay the case pending the Second Circuit's decision. The motion to stay was denied, and the motion to dismiss remains pending.

On October 19, 2015, Arthur and Barbara Sheridan, et al filed a fourth class action suit against us in the federal district court for the District of New Jersey ("Fourth Class Action Suit"). The complaint alleges common law copyright infringement, unfair competition and unjust enrichment arising from allegations that we owe royalties for the public performance of sound recordings recorded prior to February 15, 1972. On December 29, 2015, Pandora filed a motion to dismiss and motion to stay the case pending the Second Circuit's decision. Both motions remain pending.

The outcome of any litigation is inherently uncertain. Except as noted above, including with respect to the$90 million settlement for UMG Recordings, Inc. et al v. Pandora Media Inc. in the Supreme Court of the State of New York, 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. In particular, rate court proceedings could take years to complete, could be very costly and may result in current and past royalty rates that are materially less favorable than rates we currently pay or have paid in the past.

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 financial position, results of operations or cash flows.

6. Goodwill and Intangible Assets

During the three months ended March 31, 2016, we completed a business combination that was not material to our condensed consolidated financial statements. The changes in the carrying amount of goodwill for the three months ended March 31, 2016, are as follows:

	Goodwill
	(in thousands)
Balance as of December 31, 2015	$ 303,875
Goodwill resulting from business combinations and finalization of fair value	912
Balance as of March 31, 2016	$ 304,787

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

	As of December 31, 2015			As of March 31, 2016		
	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	$ (1,824)	$ 6,206	$ 8,030	$ (2,007)	$ 6,023
Developed technology	56,050	(1,265)	54,785	56,166	(4,346)	51,820
Customer relationships - clients	37,300	(777)	36,523	37,400	(1,953)	35,447
Customer relationships - users	1,940	(318)	1,622	1,940	(561)	1,379
Trade names	11,720	(304)	11,416	11,735	(754)	10,981
Total finite-lived intangible assets	$ 115,040	$ (4,488)	$ 110,552	$ 115,271	$ (9,621)	$ 105,650
Indefinite-lived intangible assets						
FCC license - Broadcast Radio	$ 193	$ —	$ 193	$ 193	$ —	$ 193
Total intangible assets	$ 115,233	$ (4,488)	$ 110,745	$ 115,464	$ (9,621)	$ 105,843

Amortization expense of intangible assets was $0.2 million and $5.1 million for the three months ended March 31, 2015 and 2016.

The following is a schedule of future amortization expense related to finite-lived intangible assets as of March 31, 2016.

	As of March 31, 2016
	(in thousands)
Remainder of 2016	$ 15,414
2017	20,118
2018	17,654
2019	17,129
2020	15,896
Thereafter	19,439
Total future amortization expense	$ 105,650

7. Debt Instruments

Long-term debt, net consisted of the following:

	As of December 31, 2015	As of March 31, 2016
	(in thousands)	
1.75% convertible senior notes due 2020	$ 345,000	$ 345,000
Unamortized discount on convertible senior notes	(110,423)	(105,989)
Long-term debt, net	$ 234,577	$ 239,011

Convertible Debt Offering

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 of1.75% 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 below; thereafter, until the second scheduled trading day prior to maturity, the Notes will be convertible at the option of holders at any time.

The conversion rate for the Notes is initially 60.9050 shares of common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $16.42 per share of our common stock, and is subject to adjustment in certain circumstances.

We will not have the right to redeem the Notes prior to December 5, 2018. We may redeem all or any portion of the Notes for cash at our option on or after December 5, 2018 if the last reported sale price of our common stock is at least 130% of the conversion price then in effect for at least20 trading days, whether or not consecutive, during any 30 consecutive trading day period, including the last trading day of such period, ending on, and including, any of thefive trading days immediately preceding the date on which we provide notice of redemption. Any optional redemption of the Notes will be at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. The maximum number of shares of common stock the Notes are convertible into is approximately 27.3 million, and is subject to adjustment under certain circumstances.

The Notes will be convertible at the option of holders only under the following circumstances:

- Prior to the close of business on the business day immediately preceding July 1, 2020, during any calendar quarter commencing after the calendar quarter ending on March 31, 2016 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive), during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- Prior to the close of business on the business day immediately preceding July 1, 2020, during thefive business day period after any ten consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day;

- Prior to the business day immediately preceding July 1, 2020, upon the occurrence of specified corporate events; or

- At any time on or after July 1, 2020 until the close of business on the second scheduled trading day immediately preceding the December 1, 2020 maturity date.

Upon the occurrence of a make-whole fundamental change or if we call all or any portion of the Notes for redemption prior to July 1, 2020, we will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change or during the related redemption period.

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 initial debt component of the Notes was valued at$233.5 million, based on the contractual cash flows discounted at an appropriate market rate for non-convertible debt at the date of issuance. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at $103.0 million, which is net of $2.6 million of fees and expenses allocated to the equity component.

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	
	(in thousands except for effective interest rate)	
Effective interest rate		10.18 %
Contractually stated interest expense	$	1,509
Amortization of discount	$	4,434

The capped call transactions are expected to reduce the potential dilution to our common stock and/or offset the cash payments we would be required to make in excess of the principal amount of the converted Notes in the event that the market price of our common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction, with such reduction and/or offset subject to a cap based on the cap price of the capped call transactions. The strike price of the capped call transactions corresponds to the initial conversion price of the Notes and is subject to certain adjustments under the terms of the capped call transactions. The capped call transactions have an initial cap price of $25.26 per share and are subject to certain adjustments under the terms of the capped call transactions. The capped call transactions have been included as a net reduction to additional paid-in capital within stockholders’ equity.

Credit Facility

We are party to a $120.0 million credit facility with a syndicate of financial institutions, which expires on September 12, 2018. As of March 31, 2016, we had no borrowings outstanding, $0.5 million in letters of credit outstanding and $119.5 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, 2016.

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 to 15% 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, net of estimated forfeitures.

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,	
	2015	**2016**
Expected life (in years)	0.5	0.5
Risk-free interest rate	0.05 - 0.07%	0.24 - 0.41%
Expected volatility	42 %	41%
Expected dividend yield	0 %	0 %

During the three months ended March 31, 2015 and 2016, we withheld $1.6 million and $1.7 million in contributions from employees and recognized $0.6 million and $0.6 million of stock-based compensation expense related to the ESPP, respectively. In the three months ended March 31, 2015 and 2016, 282,966 and 611,348 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 expenses for stock options at the grant date fair value of the award and recognize expenses 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, 2015 and 2016, we recorded stock-based compensation expense from stock options of approximately $2.9 million and $6.8 million.

There were no options granted in the three months ended March 31, 2015 and 2016.

Restricted stock units ("RSUs")

The fair value of the restricted stock units 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 four years. During the three months ended March 31, 2015 and 2016, we recorded stock-based compensation expense from RSUs of approximately $19.6 million and $31.0 million.

Market stock units ("MSUs")

We implemented a market stock unit program in March 2015 for certain key executives. MSUs 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 target 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.

During the three months ended March 31, 2015 we granted 776,000 MSUs at a total grant-date fair value of $4.3 million. There were no MSUs granted in the three months ended March 31, 2016. During the three months ended March 31, 2015 and 2016, we recorded stock-based compensation expense from MSUs of approximately $0.1 million and $0.2 million.

In February 2016, the compensation committee of the board of directors certified the results of the first performance period of the 2015 MSU grant, which concluded December 31, 2015. During the first 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 first MSU performance period at 22% of the one-third vesting opportunity for the performance period.

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,	
	2015	2016
	(in thousands)	
Stock-based compensation expense		
Cost of revenue - Other	$ 1,207	$ 1,477
Cost of revenue - Ticketing service	—	60
Product development	4,605	8,501
Sales and marketing	11,344	13,613
General and administrative	6,039	15,004
Total stock-based compensation expense	$ 23,195	$ 38,655

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

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

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 and market stock units, to the extent dilutive. Basic and diluted net loss per share were the same for the three months ended March 31, 2015 and 2016, 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,	
	2015	**2016**
	(in thousands except per share amounts)	
Numerator		
Net loss	$ (48,257)	$ (115,102)
Denominator		
Weighted-average common shares outstanding used in computing basic and diluted net loss per share	209,928	226,659
Net loss per share, basic and diluted	$ (0.23)	$ (0.51)

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,	
	2015	**2016**
	(in thousands)	
Options to purchase common stock	10,787	12,627
Restricted stock units	15,764	22,947
Market stock units	776	776
Total common stock equivalents	27,327	36,350

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, 2016, the conversion feature of the Notes was anti-dilutive.

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.

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, 2015 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, 2015. 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.

Some of the industry and market data contained in this Quarterly Report on Form 10-Q are based on independent industry publications, including those generated by Triton Digital Media ("Triton") or other publicly available information. This information involves a number of assumptions and limitations. Although we believe that each source is reliable as of its respective date, we have not independently verified the accuracy or completeness of this information.

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 Service

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. Our vision is to be the definitive source of music discovery and enjoyment for billions. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising 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. Founded by musicians, Pandora also empowers artists with valuable data and tools to help grow their careers and connect with their fans.

For the three months ended March 31, 2016, we streamed 5.52 billion hours of radio, and as of March 31, 2016, we had 79.4 million active users during the prior 30-day period. Since we launched our non-subscription, ad-supported radio service in 2005 our listeners have created over 10 billion stations.

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 1,000,000 uniquely analyzed songs from over 150,000 artists, spanning over 600 genres and sub-genres, which we develop one song at a time by evaluating and cataloging each song's particular attributes. 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. Based on listener reactions to the recordings we pick, we further tailor the station to match the listener's preferences. Listeners also have the ability to add variety to and rename stations, which further allows for the personalization of our service.

We currently provide the Pandora service through two models:

- *Free Service.* Our free service is advertising-supported and allows listeners access to our music and comedy catalogs and personalized playlist generating system for free across all of our delivery platforms.

- *Pandora One.* Pandora One is a premium daily, monthly or annual paid version of the Pandora service, which currently includes advertisement-free access. Pandora One also enables listeners to have more daily skips, enjoy higher quality audio on supported devices and enjoy longer timeout-free listening.

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, Android and the Windows Phone and for tablets including the iPad and Android tablets. We distribute those mobile apps free to listeners via app stores. In addition to smartphones and tablets, Pandora is now integrated with more than 1,700 connected devices, including automobiles, automotive aftermarket devices and consumer electronic devices.

Ticketing Service

Ticketfly is a leading live events technology company that provides ticketing and marketing software and services for 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, 2016, Ticketfly had approximately 35 thousand live events on sale, for which approximately 3.8 million tickets, excluding box office sales were sold, to approximately 1.6 million unique ticket buyers, which resulted in more than $170 million in gross transaction value, excluding box office sales. We completed the acquisition of Ticketfly on October 31, 2015.

Factors Affecting our Business Model

Internet Radio Service

A majority of the listener hours for our internet radio service, our core business, occur on mobile devices and as such, we face challenges in optimizing our advertising products for delivery on mobile and other connected device platforms and monetizing inventory, or opportunities to sell advertisements, generated by listeners using these platforms.

In addition, our monetization strategy includes increasing the number of ad campaigns sold to local advertisers, placing us in more direct competition with broadcast radio for advertiser spending, especially for audio advertisements. Key to the success of our strategy to increase local advertising is our ability to convince a substantial base of local advertisers of the benefits of advertising on the Pandora service, including demonstrating the effectiveness and relevance of our advertising products, in particular audio advertising products.

Growth in our active users and distribution platforms has fueled a corresponding growth in listener hours. Our total number of listener hours is a key driver for both revenue generation opportunities and content acquisition costs, which are the largest component of our expenses.

- *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.* We pay content acquisition costs, or royalties, 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. Content acquisition costs are calculated based on the number of sound recordings streamed, revenue earned or other usage measures. The number of sound recordings we transmit to users of the Pandora service, as generally reflected by listener hours, drives a substantial majority of our content acquisition costs, although certain of our licensing agreements require us to pay fees for public performances of musical works based on a percentage of revenue.

Royalties for sound recordings are negotiated with and paid to record labels, rights organizations or to SoundExchange, Inc. ("SoundExchange") and Merlin Networks B.V. ("Merlin"). During 2015, we paid performance rates for the sound recordings we streamed according to the terms of the Pureplay Settlement agreement (the "2015 Pureplay Rates"). On December 16, 2015, the Copyright Royalty Board ("CRB") announced new per-performance rates that apply for commercial webcasters for calendar years 2016 through 2020 (the "Web IV Rates"). Unlike the royalty structure applicable under the Pureplay Settlement agreement, the Web IV Rates do not include an alternative calculation based on percentage of revenue, but instead are solely based on per-performance rates. The rates for non-subscription services were set at $0.0017 per play, and represent an approximate 21% increase from the 2015 Pureplay Rate for non-subscription services. The rates for subscription services were set at $0.0022 per play and represent a 12% decrease from the 2015 Pureplay Rate for subscription services. The Web IV Rates took effect January 1, 2016 and the rates for the calendar years 2017 through 2020 will be adjusted by the CRB to reflect the increases or decreases, if any, in the Consumer Price Index, applicable to that rate year.

Royalties for musical works are most often negotiated with and paid to performing rights organizations ("PROs") such as ASCAP, BMI, SESAC and Global Music Rights ("GMR") or directly to publishing companies. During the twelve months ended December 31, 2015, we entered into several direct deals with ASCAP, BMI and music publishers. The majority of the licenses are structured so that each publisher or PRO receives a pro rata share of a royalty pool equal to 20% of the royalties paid by us for sound recordings, with the pro rata share of the pool paid to each publisher or PRO being determined based on our usage of its works. These license agreements are structured differently from previous PRO and publisher licenses, which have traditionally been based on a percentage of a service's revenue or a flat fee.

Given the per-play royalty structure of the Web IV Rates, our content acquisition costs increase with each additional listener hour, regardless of whether we are able to generate more revenue. As such, our ability to achieve and sustain profitability and operating leverage on our advertising-supported service depends on our ability to increase our revenue per hour of streaming through increased advertising revenue across all of our delivery platforms. Please refer to our discussion of these matters in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 for further information.

Other Offerings

In 2016, we expect to substantially increase our investments in our operations to drive anticipated future growth. One of our key objectives is to be the most powerful music discovery platform, which we believe will strengthen our brand and help us to convince advertisers to allocate spending towards our ad products. As such, a central focus is adding, retaining and engaging listeners to build market share and grow our listener hours. As our business has matured, our revenue growth has exceeded the growth in our listener hours. However, we expect to incur increasing annual net losses in the near term because our current strategy is to leverage improvements in gross profit by investing in broadening distribution channels and developing innovative and scalable products.

In 2016 and 2017, we intend to launch new subscription offerings that provide additional functionality, including an on-demand music streaming service. The development and launch of such additional service offerings will require significant engineering effort, as well as marketing, and other resources. In order to successfully launch such additional service offerings, we will need to obtain the associated content licensing rights and we will need to attract listeners 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 this investment will depend on our ability to leverage brand awareness and deliver a differentiated service that listeners find attractive.

We also intend to leverage the core Pandora internet radio service to expand our ticketing service. Our ticketing service consists of the Ticketly platform, which is a fully-integrated cloud ticketing platform for live events. 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.

Please refer to our discussion of these matters in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 for further information.

Key Metrics

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

Listener Hours

We track listener hours because it is a key indicator of the growth of our business. Beginning with the listener hours disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, 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 Premiers and artist mixtapes. Historically, listener hours related to non-radio content represented a negligible number of listener hours. Including non-radio content in the listener hours we have previously reported for the three months ended March 31, 2015 would not have changed the reported listener hours. 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, 2015 and 2016.

	Three months ended March 31,	
	2015	**2016**
	(in billions)	
Listener hours	5.30	5.52

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. Beginning with the active users disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, we are also including active users who only request non-radio content offerings in the definition of active users. Including users who only request non-radio content in the calculation of active users would not have materially changed the reported active users for the three months ended March 31, 2015.

The table below sets forth our total active users as of March 31, 2015 and 2016.

	As of March 31,	
	2015	**2016**
	(in millions)	
Active users	79.2	79.4

We define advertising-based active users (“ad-based active users”) as the number of users, excluding subscribers, that have requested audio from our servers within the trailing 30 days to the end of the final calendar month of the period. We define subscribers as the number of distinct users at the end of the period that have subscribed to our service. Inactive subscribers are included as they contribute towards revenue per thousand listener hours (“RPMs”), which are described in further detail below.

The table below sets forth our users on an advertising and subscription basis as of March 31, 2015 and 2016.

User type	As of March 31, 2015	As of March 31, 2016
	Users (in millions)	
Ad-based active users	76.1	76.3
Subscribers*	3.8	3.9
Total	79.9	80.2

* Includes subscribers that have not used our service within the trailing 30 days to the end of the final calendar month of the period.

The table below sets forth our listener hours on an advertising and subscription basis for the three months ended March 31, 2015 and 2016.

User type	Three months ended March 31, 2015	Three months ended March 31, 2016
	Listener hours (in billions)	
Ad-based active users	4.68	4.85
Subscribers	0.62	0.67
Total	5.30	5.52

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 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.

Subscription and Other Revenue per Thousand Listener Hours ("subscription RPMs")

We track subscription RPMs because it is a key indicator of the performance of our subscription service. Subscription RPMs are calculated by dividing subscription and other revenue by the number of thousands of listener hours of our subscription service.

Total Revenue per Thousand Listener Hours ("total RPMs")

We track total RPMs for our service, which includes ad and subscription RPMs, because it is a key indicator of our ability to monetize our listener hours. Total RPMs compare advertising and subscription and other revenue in a given period to total listener hours in the period. We calculate total RPMs by dividing the total revenue by the number of thousands of listener hours.

Licensing Costs per Thousand Listener Hours ("LPMs")

We track LPMs and analyze them in combination with our analysis of RPMs as they provide a key indicator of our profitability. LPMs are relatively fixed licensing costs with scheduled annual rate increases that drive period-over-period changes in LPMs. As such, the margin on our business varies principally with variances in ad RPMs and subscription RPMs.

Historically, we provided estimates of disaggregated ad RPMs, subscription RPMs, total RPMs and related LPMs for our computer platform as well as our mobile and other connected devices platforms. Starting in the three months ended March 31, 2016, we will no longer present disaggregated RPMs or LPMs for our computer or mobile and other connected devices platforms. Previously, we had provided this information in order to demonstrate the potential monetization expansion opportunity as mobile and other connected devices markets matured. Revenue and listener hours for mobile and other connected devices have since grown to represent the significant majority of our total revenue and listener hours. In addition, we currently manage the business to optimize revenue across our device platforms and thus we no longer assess our performance on a disaggregated basis. As such, we no longer believe this disaggregation is relevant.

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 on an ad, subscription and total basis for the three months ended March 31, 2015 and 2016.

	Three months ended March 31, 2016			
	2015		2016	
	RPM	LPM*	RPM	LPM*
Advertising	$ 38.30	$ 21.72	$ 45.47	$ 30.48
Subscription	82.07	38.88	81.48	35.17
Total	$ 43.53	$ 23.77	$ 49.84	$ 31.05

*We pay per-performance rates for the streaming of sound recordings for our Pandora One subscription service that are higher than the per-performance rates for our advertising-supported service.

Advertising RPMs

For the three months ended March 31, 2016 compared to 2015, advertising RPMs increased primarily due to advertising revenue growth outpacing the growth in advertising listener hours as a result of an increase in the average price per ad sold.

Subscription RPMs

For the three months ended March 31, 2016 compared to 2015, subscription RPMs were flat as the growth in subscription listening hours approximated the growth in subscription revenue.

Advertising LPMs

For the three months ended March 31, 2016 compared to 2015, advertising LPMs increased as a result of royalty rate increases of 21% on our advertising-supported platform and increases in content acquisition costs paid to PROs and publishers due to the royalty structure of our new publishing licenses.

Subscription LPMs

For the three months ended March 31, 2016 compared to 2015, subscription LPMs decreased as a result of royalty rate decreases of 12% on our subscription-supported platform, offset by increases in content acquisition costs paid to PROs and publishers under the royalty structure of our new publishing licenses.

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, 2015	Three months ended March 31, 2016
Revenue		
Advertising	77 %	74 %
Subscription and other	23	18
Ticketing service	—	7
Total revenue	100	100
Cost of revenue		
Cost of revenue — Content acquisition costs	55	58
Cost of revenue — Other (1)	7	7
Cost of revenue — Ticketing service (1)	—	5
Total cost of revenue	62	70
Gross profit	38	30
Operating expenses		
Product development (1)	7	12
Sales and marketing (1)	37	40
General and administrative (1)	16	16
Total operating expenses	59	67
Loss from operations	(21)	(37)
Interest expense	—	(2)
Other income, net	—	—
Total other income (expense), net	—	(2)
Loss before provision for income taxes	(21)	(39)
Provision for income taxes	—	—
Net loss	(21)%	(39)%

	2015	2016
(1) Includes stock-based compensation as follows:		
Cost of revenue - Other	0.5 %	0.5 %
Cost of revenue - Ticketing service	—	—
Product development	2.0	2.9
Sales and marketing	4.9	4.6
General and administrative	2.6	5.0
Note: Amounts may not recalculate due to rounding		

Revenue

	Three months ended March 31, 2015	Three months ended March 31, 2016	$ Change
	(in thousands)		
Revenue			
Advertising	$ 178,739	$ 220,308	$ 41,569
Subscription and other	52,025	54,732	2,707
Ticketing service	—	22,265	22,265
Total revenue	$ 230,764	$ 297,305	$ 66,541

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-throughs. 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, 2015 and 2016, advertising revenue accounted for 77% and 74%, of our total revenue. We expect that advertising will comprise a substantial majority of our revenue for the foreseeable future.

For the three months ended March 31, 2016 compared to 2015, advertising revenue increased $41.6 million or 23%, primarily due to an approximate 40% increase in the average price per ad due in part to our increase in relative volume of local ad sales and our focus on monetizing mobile inventory.

Subscription and other revenue

Subscription and other revenue is generated primarily through the sale of Pandora One, a premium version of the Pandora service, which currently includes advertisement-free access and higher audio quality on the devices that support it. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the three months ended March 31, 2015 and 2016, subscription and other revenue accounted for 23% and 18% of our total revenue.

For the three months ended March 31, 2016 compared to 2015, subscription revenue increased $2.7 million or 5%, primarily due to an approximate 5% 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, ticketing service revenue was $22.3 million and accounted for approximately 7% of our total revenue. In the three months ended March 31, 2016, Ticketfly had approximately 35 thousand live events on sale, for which approximately 3.8 million tickets, excluding box office sales were sold, to approximately 1.6 million unique ticket buyers, which resulted in more than $170 million in gross transaction value, excluding box office sales. We had no ticketing service revenue in the three months ended March 31, 2015, given that the acquisition of Ticketfly was completed on October 31, 2015.

Deferred revenue

Our deferred revenue consists principally of both prepaid but unrecognized subscription revenue and advertising fees received or billed in advance of the delivery or completion of the delivery of services. Deferred revenue is recognized as revenue when the services are provided and all other revenue recognition criteria have been met.

In addition, subscription revenue derived from sales through certain mobile devices may be subject to refund or cancellation terms which may affect the timing or amount of the subscription revenue recognition. When refund rights exist, we recognize revenue when services have been provided and the rights lapse or when we have developed sufficient transaction history to estimate a return reserve.

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,		
	2015	2016	$ Change
		(in thousands)	
Cost of revenue - Content acquisition costs	$ 126,023	$ 171,264	$ 45,241

Cost of revenue—content acquisition costs principally consist of royalties paid for streaming music or other content to our listeners. Royalties are currently calculated using negotiated rates documented in agreements. The majority of our royalties are payable based on a fee per public performance of a sound recording, while in other cases our royalties are payable based on a percentage of our revenue, a formula that involves a combination of per performance and revenue metrics or a percentage of royalties paid for sound recordings. For certain royalty arrangements, we accrue for estimated royalties based on the available facts and circumstances and adjust these estimates as more information becomes available.

For the three months ended March 31, 2016 compared to 2015, content acquisition costs increased $45.2 million or 36%, primarily due to blended sound recording royalty rate increases of 15%, an approximate 5% increase in listener hours and an increase in content acquisition costs paid to publishers and PROs due to the royalty structure of our new publishing licenses. Content acquisition costs as a percentage of total revenue increased from 55% to 58%, primarily due to blended royalty rate increases of 15% and an increase in content acquisition costs paid to publishers and PROs due to the royalty structure of our new publishing licenses, offset by an increase in revenue.

Cost of revenue—Other

	Three months ended March 31,		
	2015	2016	$ Change
		(in thousands)	
Cost of revenue — Other	$ 16,233	$ 20,999	$ 4,766

Cost of revenue—other consists primarily of ad and music serving costs, employee-related and facilities and equipment costs and other costs of ad sales. Ad and music serving costs consist of content streaming, maintaining our internet radio service 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 advertising arrangements.

For the three months ended March 31, 2016 compared to 2015, cost of revenue—other increased $4.8 million or 29%, primarily due to a $3.4 million increase in employee-related and facilities and equipment costs driven by an approximate 35% increase in headcount and a $1.9 million increase in hosting and ad serving costs driven by an increase in advertising revenue.

Cost of revenue - Ticketing service

	Three months ended March 31,		
	2015	2016	$ Change
		(in thousands)	
Cost of revenue — Ticketing service	$ —	$ 14,646	$ 14,646

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, 2016, cost of revenue—ticketing service was $14.6 million and consisted primarily of $10.1 million in ticketing revenue share costs, $2.9 million in credit card fees and other cost of revenue and $1.4

million in intangible amortization expense. We had no cost of revenue—ticketing service in thethree months ended March 31, 2015, given that the acquisition of Ticketfly was completed on October 31, 2015.

Gross profit

	Three months ended March 31, 2015	Three months ended March 31, 2016	$ Change
		(in thousands)	
Gross profit			
Total revenue	$ 230,764	$ 297,305	$ 66,541
Total cost of revenue	142,256	206,909	64,653
Gross profit	$ 88,508	$ 90,396	$ 1,888
Gross margin	38 %	30 %	

For the three months ended March 31, 2016 compared to 2015, gross profit increased by $1.9 million or 2% and gross margin decreased from 38% to 30% as the growth in content acquisition costs outpaced the growth in revenue, primarily due to blended royalty rate increases of 15%, an approximate 5% increase in listener hours and an increase in content acquisition costs paid to publishers and PROs under the royalty structure of our new publishing licenses.

Product development

	Three months ended March 31, 2015	Three months ended March 31, 2016	$ Change
		(in thousands)	
Product development	$ 15,875	$ 35,846	$ 19,971

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 advertising products and development and enhancement of our personalized station generating 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. We expect these capitalized costs to increase during the remainder of 2016 as we develop an on-demand streaming service. We intend to substantially increase investments in developing new products and enhancing the functionality of our existing products.

For the three months ended March 31, 2016 compared to 2015, product development expenses increased $20.0 million or 126%, primarily due to a $16.9 million increase in employee-related and facilities and equipment costs driven by an approximate 105% increase in headcount, an increase of $1.8 million in intangible amortization expense and an increase of $1.2 million in professional fees.

Sales and marketing

	Three months ended March 31, 2015	Three months ended March 31, 2016	$ Change
		(in thousands)	
Sales and marketing	$ 84,274	$ 117,622	$ 33,348

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 maker 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.

We are substantially increasing sales and marketing expenses to drive growth as we hire additional personnel to build out our sales and sales support teams, particularly as we continue to build out our local market sales team. In 2015, we launched 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, 2016 compared to 2015, sales and marketing expenses increased $33.3 million or 40%, primarily due to a $18.9 million increase in employee-related and facilities and equipment costs driven by an approximate 20% increase in headcount, an $8.7 million increase in brand marketing, advertising, direct response and search engine marketing costs driven by our advertising campaigns launched in the three months ended March 31, 2016, a $1.7 million increase in intangible amortization expense, a $1.4 million increase in costs related to music events and a $1.4 million increase in transaction processing commissions on subscription purchases through mobile app stores.

General and administrative

	Three months ended March 31,		
	2015	2016	$ Change
		(in thousands)	
General and administrative	$ 36,754	$ 46,296	$ 9,542

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, 2016 compared to 2015, general and administrative expenses increased $9.5 million or 26%, primarily due to a $15.6 million increase in employee-related and facilities and equipment costs driven by executive severance and an approximate 35% increase in headcount and a $1.0 million increase in sales and other tax expense, offset by a $7.2 million decrease in professional fees related to royalty and other legal matters.

Interest expense

Interest expense in the three months ended March 31, 2016 consists of interest expense on our 1.75% Convertible Senior Notes due 2020. Refer to Note 7 “Debt Instruments” in the Notes to Consolidated Financial Statements for further details on our Notes.

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 ofMarch 31, 2016 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, 2015.

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

Our results reflect the effects of seasonal trends in listener and advertising behavior. 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 during the last three months of each calendar year. In addition, we expect to experience lower advertising sales in the first three months of each calendar year due to reduced advertiser demand and increased usage 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 as 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 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, 2016, we had cash, cash equivalents and investments totaling$382.5 million, which primarily consisted of cash and money market funds held at major financial institutions, commercial paper and investment-grade corporate debt securities.

Our principal uses of cash during thethree months ended March 31, 2016 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 available borrowings under our credit facility 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. As of March 31, 2016, we had no borrowings outstanding, $0.5 million in letters of credit outstanding and $119.5 million of available borrowing capacity under the credit facility.

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 Consolidated Financial Statements for further details on our Notes.

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; thereafter, until the second scheduled trading day prior to maturity, the Notes will be convertible at the option of holders at any time.

The conversion rate for the Notes is initially 60.9050 shares of common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $16.42 per share of our common stock, and is subject to adjustment in certain circumstances.

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.

The capped call transactions are expected generally to reduce the potential dilution to our common stock and/or offset the cash payments we would be required to make in excess of the principal amount of the converted Notes in the event that the market price of our common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction, with such reduction and/or offset subject to a cap based on the cap price of the capped call transactions. The strike price of the capped call transactions corresponds to the initial conversion price of the Notes and is subject to certain adjustments under the terms of the capped call transactions. The capped call transactions have an initial cap price of $25.26 per share and are subject to certain adjustments under the terms of the capped call transactions. The capped call transactions have been included as a net reduction to additional paid-in capital within stockholders' equity.

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 the three months ended March 31, 2015 and 2016.

	Three months ended March 31,	
	2015	**2016**
	(in thousands)	
Net cash provided by (used in) operating activities	$ 26,981	$ (13,104)
Net cash provided by (used in) investing activities	16,408	(18,885)
Net cash provided by financing activities	1,825	913

Operating activities

In the three months ended March 31, 2016, net cash used in operating activities was $13.1 million and primarily consisted of our net loss of $115.1 million, which was partially offset by non-cash charges of $57.4 million, primarily related to $38.7 million in stock-based compensation charges and $13.3 million in depreciation and amortization expense. Net cash used in operating activities also included an increase in prepaid expenses and other assets of $19.7 million primarily related to advance payments made for the publishing agreements signed in 2015, offset by a decrease of $38.5 million in cash from collections of accounts receivable. Net cash used in operating activities increased by $40.1 million from the three months ended March 31, 2015, primarily due to an increase in our net loss of $66.8 million.

Investing activities

In the three months ended March 31, 2016, net cash used in investing activities was $18.9 million and included $14.4 million of capital expenditures for leasehold improvements and server equipment, $7.2 million of capital expenditures for internal-use software and $5.0 million in purchases of investments, offset by $8.3 million in proceeds from sales and maturities of investments. Net cash used in investing activities increased by $35.3 million from the three months ended March 31, 2015, primarily due to a decrease in proceeds from sales and maturities of investments of $70.8 million, an increase in capital expenditures for leasehold improvements and server equipment of $10.0 million and an increase in capital expenditures for internal-use software of $5.6 million, offset by a decrease in purchases of investments of $51.8 million.

Financing activities

In the three months ended March 31, 2016, net cash provided by financing activities was $0.9 million and included $1.7 million in proceeds from our employee stock purchase plan and $0.5 million in proceeds from the exercise of stock options, offset by $1.3 million in tax payments from net share settlements of RSUs. Net cash provided by financing activities decreased $0.9 million from the three months ended March 31, 2015, primarily due to a decrease in proceeds from the exercise of stock options of $0.6 million and an increase in tax payments from net share settlements of RSUs of $0.4 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.

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, 2015 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates.”

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, 2015. 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, 2016.

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 three months ended March 31, 2016, 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 in "Part I - Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and all information set forth in this Quarterly Report on Form 10-Q. 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, 2015.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference: Form	File No.	Exhibit	Filing Date	Filed By	Filed Herewith
10.19	2016 Corporate Incentive Plan						X
10.34†	Severance and Release Agreement between Simon Fleming-Wood and Pandora Media, Inc., dated April 3, 2016						X
10.35†	Severance and Release Agreement between Brian McAndrews and Pandora Media, Inc., dated April 13, 2016						X
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	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Balance Sheets as of March 31, 2016 and December 31, 2015, (ii) Condensed Statements of Operations for the three months ended March 31, 2016 and 2015, (iii) Condensed Statements of Comprehensive Loss for the three months ended March 31, 2016 and 2015, (iv) Condensed Statements of Cash Flows for the three months ended March 31, 2016 and 2015 and (v) Notes to Condensed Financial Statements						X

† 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 2, 2016	By:	/s/ Michael S. Herring
		Michael S. Herring
		President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial and Accounting Officer)

Pandora Media Corporate Incentive Plan for Fiscal Year Ending December 31, 2016

The Pandora Media, Inc. ("**Pandora**") Corporate Incentive Plan for the fiscal year ending December 31, 2016 (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, 2016 through and including December 31, 2016 ("**Calendar Year 2016**").

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) in good standing on the last day of Calendar Year 2016, 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 of Pandora's Board of Directors.

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 eligible employee must remain an employee in good standing on the last day of the Plan Year (December 31, 2016).

New Hires and Promotions into Eligible Positions. Eligible 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 after November 1, 2016 will not be eligible for 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 (as defined below) amounts based on the length of time employed in each Eligible Position.

Target Bonus Opportunity

Each Eligible Position is assigned a target bonus amount ("**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 employees who are not executive officers ("**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 on the last day of the fiscal year (December 31, 2016). 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.

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 CEO of Pandora 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 CEO 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, discontinue 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 April 3, 2016 (the "***Agreement Date***") by and between Simon Fleming-Wood ("***Executive***") and Pandora Media, Inc. (the "***Company***").

WHEREAS, Executive has been employed with the Company pursuant to an offer letter dated August 5, 2011 (the "***Offer Letter***");

WHEREAS, the parties hereto have agreed that Executive will resign his employment effective July 1, 2016; 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.

a. The parties agree that, so long as Executive remains compliant with the terms of this Agreement: (i) Executive will continue as a regular, full-time employee at his current salary in effect as of the Effective Date until July 1, 2016 (the "***Resignation Date***") and (ii) Executive's monthly base salary as of the Resignation Date will be no less than Executive's monthly base salary as of the Effective Date. During the period from the Effective Date through the Resignation Date (the "***Transition Period***"), Executive will not be expected to maintain regular working hours at the Company's offices. Instead, during the Transition Period, Executive will provide consulting and transition services as reasonably requested by the Company's Chief Product Officer.

b. 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.

c. During the period between the Effective Date and the Resignation Date, Executive will (i) continue to be paid his base salary (either as direct wages or as PTO); (ii) continue to vest in outstanding Company stock options, restricted stock, restricted stock units, market stock units or other equity-based awards (collectively, "***Equity Awards***") held by Executive as of the Effective Date; and (iii) remain eligible for all Company benefits (including without limitation health insurance coverage) at the same level as Executive was eligible for such benefits at the Effective Date.

2. Resignation from Offices and Directorships. As of the Effective Date, Executive shall resign from 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 Marketing

Officer of the Company). 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 (i) this Agreement in accordance with Section 12 of this Agreement, and (ii) the Supplemental Release Agreement (attached as **Exhibit A**); and so long as Executive is not in breach of his 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 six (6) times Executive's monthly base salary in effect on the Resignation Date, paid in a lump sum within ten (10) business days following the Supplemental Release Effective Date (as defined in the Supplemental Release);

b. A cash payment equal to a prorated (to the Resignation Date) portion of the amount that Executive would have received under the Company's annual bonus plan, based on the Company's actual performance as determined by the Compensation Committee of the Board in its discretion for the remaining executive officers of the Company following the completion of the 2016 annual performance period; *provided* that such payment will not exceed Executive's prorated annual target bonus for 2016; *provided further* that such payment will be made no later than March 15, 2017;

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 on the Resignation Date and ending on the earliest to occur of (a) six (6) months following the Resignation Date, and (b) the date on which the Executive and his 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; and

e. Effective on the Supplemental Release Effective Date, accelerated vesting by six (6) months of all outstanding Equity Awards held by Executive as of the Resignation Date; *provided* that, in lieu of the foregoing, Equity Awards that do not vest monthly will be accelerated through six (6) months following the Resignation Date; provided further, that in the case of Executive's outstanding 2015 Market Stock Unit award, Executive will vest in the portion of the Market Stock Unit award with respect to the performance period ending on December 31, 2016, with the amount vested to be based on actual performance during such performance period, as determined by the Compensation Committee of the Board, and to be settled no later than March 15, 2017, and all remaining Market Stock Units that do not vest in accordance with this Agreement shall be forfeited and cancelled by the Company.

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 he executes this Agreement, he has been paid all compensation due and owing through such signature date, including any then-earned salary, bonuses, and any other incentive payments, as well any other monies to which he was entitled, other than accrued but unused PTO. By entering into the Supplemental Release, Executive will thereby extend this acknowledgement through the Supplemental Release Effective Date, which at that time will be inclusive of payment of any accrued but unused PTO as of the Separation Date, assuming such amount is paid in accordance with Section 1(b) above.

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, 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 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, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the Employee Retirement Income Security 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 he executes this Agreement, he has not suffered any workplace injury for which he 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 and Invention Assignment Agreement entered into by and between the Company and Executive dated August 5, 2011 (the "***Confidential Information Agreement***"), remains in full force and effect following the execution of this Agreement and that he will continue to abide by his 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, he will not, directly or indirectly, solicit any employee of any Company Affiliate to (i) terminate his or her employment with such Company Affiliate; or (ii) become employed by an employer other than 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.

6. Limited Injunctive Relief. 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.

a. Executive agrees that he 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.

b. The Company agrees that neither it, nor any of its executive officers or members of its board of directors, will make any disparaging, negative or untrue statements about Executive. Nothing in this paragraph shall prevent the Company or any of its executive officers or members of its board of directors 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 his employment by the Company. Such cooperation includes, without limitation, making himself 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 he incurs in connection with any such cooperation (excluding foregone wages, salary, or other compensation) and will make reasonable efforts to accommodate his 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 he 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.
2101 Webster St., Suite 1650
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 (other than attorneys' fees and costs), shall be apportioned between the parties in accordance with the JAMS Rules. It is agreed that the prevailing party shall be entitled to recover from the opposing party any costs incurred (including reasonable attorneys' fees) and 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 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]

The foregoing Agreement is executed by the parties as of the Effective Date:

PANDORA MEDIA, INC.		SIMON FLEMING-WOOD	
By:	/s/ Steve Bené Signature	By:	/s/ Simon Fleming-Wood Signature
By:	Steve Bené		
Title:	General Counsel		
Date:	4/4/2016	Date:	4/3/2016

SEVERANCE AND RELEASE AGREEMENT

This SEVERANCE AND RELEASE AGREEMENT ("***Agreement***") is made this day of April 13, 2016 ("Agreement Date") by and between Brian McAndrews ("***McAndrews***") and Pandora Media, Inc. (the "***Company***").

WHEREAS, McAndrews has been employed with the Company pursuant to an offer letter dated September 11, 2013 (the "***Offer Letter***");

WHEREAS, McAndrews' employment with the Company terminated effective March 25, 2016; and

WHEREAS, the Company and McAndrews enter into this Agreement to set forth the terms of McAndrews' separation from the Company and to clarify their ongoing rights and obligations to each other;

NOW THEREFORE, the parties agree as follows:

1. Termination from Offices and Directorships. The parties agree that McAndrews' employment was terminated by the Company in a manner constituting an Involuntary Termination (as defined in the Pandora Amended Executive Severance and Change in Control Policy ("***Severance Policy***"), effective at the close of business on March 25, 2016 (the "***Termination Date***"). The Company and McAndrews agree that McAndrews' termination shall be effective as to all officer and director positions with the Company, its subsidiaries and any affiliates of any of them (including, without limitation, McAndrews' position as Chief Executive Officer of the Company, Chairman of the Board of Directors of the Company (the "***Board***"), and as a member of the Board), effective as of the Termination Date. McAndrews agrees to execute such additional documentation as the Company or its subsidiaries or affiliates may reasonably request to effectuate such terminations.

2. Severance Benefits. Pursuant to the Offer Letter and Severance Policy, as modified herein, and subject to the general waiver and release in this Agreement becoming effective as provided herein, the Company will provide McAndrews the following (the "***Severance Benefits***"):

a. A cash payment equal to Six Hundred Thousand Dollars ($600,000.00), paid in a lump sum within ten (10) business days following the Effective Date (as defined in Section 9 of this Agreement);

b. A cash payment equal to a prorated (to the Termination Date) portion of the amount that McAndrews would have received under the Company's annual bonus plan, based on the Company's actual performance as determined by the Compensation Committee of the Board in its discretion for the remaining executive officers of the Company following the completion of the 2016 annual performance period; *provided* that such payment will not exceed McAndrews' prorated annual target bonus for 2016, and shall be calculated using an annual base amount of Six Hundred Thousand Dollars

($600,000.00); *provided further* that such payment will be made no later than March 15, 2017;

c. So long as McAndrews 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 McAndrews' applicable premiums (including spouse or family coverage if McAndrews had such coverage on the Termination Date) for such continuation coverage under COBRA (payable as and when such payments become due) during the period commencing on the Termination Date and ending on the earlier to occur of (i) 12 months following the Termination Date, and (ii) the date on which McAndrews and his covered dependents, if any, obtain health insurance coverage through another employer;

d. Reasonable outplacement and career continuation services by a firm to be selected by the Company for not less than three (3) months following the Termination Date;

e. Effective on the Effective Date of this Agreement, accelerated vesting by twelve (12) months of all outstanding Company stock options, restricted stock, restricted stock units or other equity-based awards (collectively, "***Equity Awards***") held by McAndrews as of the Termination Date; *provided* that, in lieu of the foregoing, Equity Awards that do not vest monthly will be accelerated through twelve (12) months following the Termination Date as if such Equity Award had been on a monthly vesting schedule through the original vesting period; provided, however, in the case of McAndrews' outstanding Market Stock Unit award, McAndrews shall be eligible to vest in the portion of the Market Stock Unit award with respect to the performance period ending within twelve (12) months following the Termination Date, based on actual performance during such performance period, as determined by the Compensation Committee of the Board in its discretion for the remaining executive officers of the Company, and to be settled no later than March 15, 2017, and all remaining Market Stock Units that do not vest in accordance with this Agreement shall be forfeited and cancelled by the Company. The parties agree that Attachment A correctly sets forth both the current vesting status and the shares to be accelerated under this Section 2.e.;

f. Reimbursement of McAndrews' reasonable attorneys' fees in negotiating this Agreement, in an amount not to exceed Ten Thousand Dollars ($10,000.00); provided that McAndrews (through his counsel) provides Pandora with a detailed invoice reflecting time entries and hourly rate for each timekeeper.

g. In the event a Change of Control (as defined in the Pandora Media, Inc. 2011 Equity Incentive Plan) occurs prior to May 24, 2016, McAndrews shall receive the following additional payments and benefits:

i. A cash payment equal to Three Hundred Thousand Dollars ($300,000.00), paid in a lump sum within ten (10) days following the Change of Control;

ii. The bonus payment described in paragraph 2.b., above, shall be no less than One Hundred, Twenty-Six Thousand, Five Hundred and Seventy-Five Dollars ($139,726.00); and

iii. Accelerated vesting, effective immediately prior to the Change of Control, of all outstanding Equity Awards held by McAndrews as of the Termination Date.

All payments made to McAndrews or on McAndrews' 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 McAndrews might claim entitlement (and which the Company would dispute) under the Offer Letter and in lieu of any payments or benefits to which McAndrews 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. McAndrews further agrees and acknowledges that, except as otherwise provided herein, as of the date he executes this Agreement, he has been paid all earned salary, bonuses, and any other incentive payments, accrued but unused vacation or paid-time-off, as well any other monies to which he was entitled, other than the Severance Benefits.

3. Waiver and Release.

a. General Release and Waiver by McAndrews. In exchange for the provisions described above, McAndrews hereby waives, releases, gives up, and promises never to make any claims of any kind (whether McAndrews knows of them now or not) that McAndrews 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 McAndrews' employment, recruitment for employment, and separation from employment with the Company or any of its subsidiaries or affiliates. The claims that McAndrews is waiving, releasing, giving up and promising never to make include, but are not limited to, all of the following:

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

ii. any claims arising out of the Offer Letter, any Company compensation or benefit plan (including, without limitation, the Severance Policy), or, except as otherwise provided herein, any other contractual right applicable to McAndrews' employment or separation of employment with the Company or any subsidiary or affiliate;

iii. any claim based on age, race, color, national origin, ancestry, sex, 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 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, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the Employee Retirement Income Security 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; any claim under any contract, agreement (including the Offer Letter), promise or policy with respect to or in relation to McAndrews' employment with the Company or any subsidiary or affiliate, except for any rights arising out of or as otherwise provided in this Agreement;

iv. 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

v. any claim for attorneys' fees, expenses, and/or costs, except as otherwise provided herein.

McAndrews 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.

McAndrews 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 McAndrews' 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. McAndrews represents, however, that, as of the date he executes this Agreement, he has not suffered any workplace injury for which he has not already filed a claim for workers compensation.

The above waiver and release does not affect McAndrews' right to file a charge or cooperate in an investigation with the Equal Employment Opportunity Commission (EEOC) or similar state or local agencies, but it is understood and agreed that McAndrews 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 McAndrews' right to challenge the enforceability of this release under the Older Workers Benefit Protection Act.

Notwithstanding the foregoing, nothing in this Agreement shall alter, extinguish or diminish McAndrews' rights to defense and/or indemnification under the Indemnification Agreement between McAndrews and the Company, dated September 11, 2013 (which, as noted below, McAndrews and the Company hereby acknowledge remains in effect), the Company's Articles of Incorporation, By-laws, or applicable law.

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

b. Release and Waiver of any Known Claims by the Company. The Company and its successors and assigns hereby and forever release McAndrews (including his heirs and family members) from, and agree not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, or cause of action relating to any facts, occurrences or matters of any kind that are known to the Company as of the date its duly authorized representative executes this Agreement and that arise, in whole or in part, from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation any and all claims relating to or arising from McAndrews' position as an officer and director of the Company and the termination of those relationships.
The Company's release of McAndrews hereunder does not extend to any obligations incurred under this Agreement or to any claims that arise from facts or occurrences that are unknown to the Company. The Company states that, as of the date it executes this Agreement, it is unaware of any claims that it has against McAndrews.

4. Confidential Information Agreement. McAndrews acknowledges that the Confidential Information, Invention Assignment, and Arbitration Agreement entered into by and between the Company and McAndrews dated September 11, 2013 (the "***Confidential Information Agreement***"), remains in full force and effect following the execution of this Agreement and that he will continue to abide by his obligations under that agreement.

5. Indemnification Agreement. The Company acknowledges that the Indemnification Agreement entered into by and between the Company and McAndrews dated September 11, 2013 ("Indemnification Agreement"), remains in full force and effect following the execution of this Agreement and that both parties will continue to abide by their obligations under that agreement.

6. Government Reporting and Cooperation Permitted. Nothing in this Agreement will be construed to prohibit McAndrews 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 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 McAndrews may not disclose information of the Company that is protected by the attorney-client privilege, except as expressly authorized by law.

McAndrews does not need the prior authorization of the Company to make any such reports or disclosures and McAndrews is not required to notify the Company that he has made such reports or disclosures.

7. Costs of Enforcement. If either party brings an action against the other for alleged violation of their respective commitments in this Agreement, it is agreed that such party may seek judicial enforcement of its rights under this Agreement, and it is agreed that the prevailing party shall be entitled to recover from the opposing party any costs incurred (including reasonable attorneys' fees) in obtaining judicial enforcement to the extent available to a prevailing party under applicable law and under the standards provided in any applicable statute.

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

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

10. Revocation Period and Effective Date. Once McAndrews has signed this Agreement, McAndrews may still revoke it at any time during the seven (7) day period after McAndrews 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 McAndrews having revoked this Agreement. Once this revocation period expires, so long as McAndrews has not revoked this Agreement and so long as the Company has also executed it, it will be a binding, irrevocable agreement between McAndrews and the Company (the "***Effective Date***").

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

Pandora Media, Inc.
2101 Webster St., Suite 1650
Oakland, CA 94612
Attention: General Counsel

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

12. Entire Agreement. This Agreement constitutes the complete understanding between the Company and McAndrews relating to McAndrews' separation of employment, and McAndrews 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 McAndrews except as specifically provided herein.

13. 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 McAndrews.

14. 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.

15. 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. In the event that any dispute arises under this Agreement, the Parties agree that proceedings will take place exclusively in Alameda County in the State of California.

16. Section 409A. This Agreement and the payments and benefits hereunder are intended to be exempt from the requirements of 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***"), to the maximum extent possible, whether pursuant to the short-term deferral exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(4), the involuntary separation pay plan exception to Section 409A described in Treasury Regulation Section 1.409A-1(b)(9)(iii), or otherwise. 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, McAndrews 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 Termination Date shall instead be paid on the first business day after the date that is six months following the Termination Date. All references in this paragraph to "Termination 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 McAndrews 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, unless the liability is caused by the Company's failure to properly administer this Agreement in accordance with Section 409A of the Code and all regulations, rulings, and other guidance in effect as of the date of this Agreement. Each payment made under this Agreement shall be treated as a separate and distinct payment and the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate and distinct payments. 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 McAndrews 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]

The foregoing Agreement is executed by the parties as of the Effective Date:

PANDORA MEDIA, INC.		BRIAN MCANDREWS	
By:	/s/ Steve Bené Signature	By:	/s/ Brian McAndrews Signature
By:	Steve Bené		
Title:	General Counsel		
Date:	4/19/2016	Date:	4/15/2016

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 2, 2016

/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, Michael S. Herring, 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 2, 2016

/s/ Michael S. Herring

Name:	Michael S. Herring
Title:	*President and 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, 2016 (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 2, 2016

/s/ Tim Westergren

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

/s/ Michael S. Herring

Name:	Michael S. Herring
Title:	*President and 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.