

Edgar Filing: Pandora Media, Inc. - Form 10-K

Pandora Media, Inc.
Form 10-K
February 16, 2017

false--12-31FY201610-K0001230276YesLarge Accelerated Filer2088000000Pandora Media,
Inc.NoYesP3Y13.4113.04P10DP2YP90DP90DP6M10.03P10YP5YP3YP5YP2YP3YP2YP8YP5YP8YP2YP4YP2Y00000.00
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p:Pre1972CopyrightLitigationMember 2015-01-01 2015-12-31 0001230276 p:Pre1972CopyrightLitigationMember
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p:unit p:vote

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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 (I.R.S. Employer
incorporation or organization) Identification No.)

2101 Webster Street, Suite 1650 **94612**
Oakland, CA

(Address of principal executive offices) (Zip Code)

(510) 451-4100

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(g) of the Act:

Title of each class **Name of each exchange on which registered**

Common stock, \$0.0001 par value The New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a 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 aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2016 (the last business day of the registrant's most recently completed second quarter), based on the closing price of such stock on The New York Stock Exchange on such date was approximately \$2,088 million. This calculation excludes the shares of common stock held by executive officers, directors and stockholders whose ownership exceeds 5% outstanding at June 30, 2016. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

On February 13, 2017 the registrant had 235,287,441 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2016, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K, the Definitive Proxy Statement is not deemed to be filed as part of this Annual Report on Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K contains "forward-looking statements" that involve substantial risks and uncertainties. The statements contained in this Annual Report on Form 10-K 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 Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses and plans and objectives of management. 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 Item 1A—"Risk Factors" included in this Annual Report on Form 10-K. 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. In addition, the industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors including those described in the section entitled "Risk Factors." These and other factors could cause our results to differ materially from those expressed in this Annual Report on Form 10-K.

Some of the industry and market data contained in this Annual Report on Form 10-K are based on independent industry publications, including those generated by Triton Digital Media or "Triton," International Data Corporation or "IDC," eMarketer 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. and, where appropriate, its wholly owned subsidiaries, unless the context indicates otherwise.

"Pandora" and other trademarks of ours appearing in this report are our property. This report contains 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.

EXPLANATORY NOTE REGARDING THE ANNUAL REPORT

We changed our fiscal year from the year ending January 31 to the calendar year ending December 31, effective beginning with the period ended December 31, 2013. As a result, the period ended December 31, 2013 was shortened from a year to an eleven-month transition period.

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PART I

ITEM 1. BUSINESS

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. Pandora is available as an ad-supported service or as a subscription service, which we call Pandora Plus. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on our ad-supported service on these devices. We offer both local and national advertisers the opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue from subscriptions to Pandora Plus. Founded by musicians, Pandora also empowers artists with valuable data and tools to help grow their careers and connect with their fans.

For the year ended December 31, 2016, we streamed 21.96 billion hours of internet radio, and as of December 31, 2016, we had 81.0 million active users during the prior 30-day period. Since we first launched our ad-supported service in 2005, our listeners have created over 11 billion stations.

Unlike traditional radio stations that broadcast the same content at the same time to all of their listeners, we enable each of our listeners to create personalized stations. The Music Genome Project and our content programming algorithms power our ability to predict listener music preferences, play music content suited to the tastes of each individual listener and introduce listeners to music we think they will love. When a listener enters a single song, artist, comedian or genre to start a station—a process we call seeding—the Pandora service instantly generates a station that plays music we think that listener will enjoy. Based on listener reactions to the songs 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 and have announced an additional service model to be launched in 2017:

Ad-Supported Service. Our ad-supported service allows listeners to access our music and comedy catalogs and personalized playlist generating system for free across all of our delivery platforms. Beginning on September 15, 2016, our ad-supported service includes new features, such as the ability to obtain more skips and replay tracks by watching an advertisement.

Subscription Service—Pandora Plus. Our new subscription service, Pandora Plus, launched in the United States on September 15, 2016. Prior to the launch of Pandora Plus, we operated a subscription service called Pandora One. Pandora Plus and Pandora One are premium monthly or annual paid versions of the Pandora service, which include ad-free access, higher quality audio on supported devices and longer timeout-free listening. Pandora Plus includes additional features, such as replays, additional skipping and offline listening.

Subscription Service—Pandora Premium. In December 2016, we unveiled our new on-demand music subscription service, Pandora Premium, which will launch to users in 2017. Pandora Premium will be a paid version of the Pandora service that will offer a unique, on-demand experience, providing users with the ability to search, play and collect songs and albums, build playlists on their own or with the tap of a button and automatically generate playlists based

on the user's listening activity.

Beyond song delivery, listeners can discover more about the music they hear by reading the history of their favorite artists, viewing artist photos and linking from Pandora to Amazon or iTunes to purchase and download albums and songs. Our service also incorporates community social networking features. Our music feed feature enables a real-time, centralized stream for listeners to view the music that their social connections are experiencing and to provide and receive recommendations for songs, albums and artists. Listeners can also share their stations through social media, messaging apps and email by using our share feature or by distributing our individualized station URLs.

Ticketing Service

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We operate our ticketing service through our subsidiary Ticketfly, a leading live events technology company that provides ticketing and marketing software and services for our clients, which are venues and event promoters, across North America. Ticketfly's ticketing, digital marketing and analytics software helps promoters book talent, sell tickets and drive in-venue revenue, while Ticketfly's consumer tools help fans find and purchase tickets to events. Tickets are primarily sold through the Ticketfly platform but are also sold through other channels such as box offices. For the year ended December 31, 2016, Ticketfly provided ticketing services for approximately 115,000 live events on sale, for which approximately 15.2 million tickets, excluding box office sales, were sold to approximately 5.3 million unique ticket buyers, which resulted in more than \$615.0 million in gross transaction value, excluding box office sales.

Our Technologies

Pandora—Internet Radio Service

At the heart of our service is our set of proprietary personalization technologies, including the Music Genome Project and our playlist generating algorithms. 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.

Music Genome Project

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. Once we select music to become part of our catalog, our music analysts genotype the music by examining up to 450 attributes including objectively observable metrics such as tone and tempo, as well as subjective characteristics, such as lyrics, vocal texture and emotional intensity. We employ rigorous hiring and training standards for selecting our music analysts, who typically have four-year degrees in music theory, composition or performance, and we provide them with intensive training in the Music Genome Project's precise methodology.

Comedy Genome Project

Our Comedy Genome Project leverages similar technology to that underlying the Music Genome Project, allowing a listener to choose a favorite comedian or a genre as a seed to start a station and then give feedback to personalize that station. Our comedy collection includes content from more than 3,000 comedians with more than 35,000 tracks.

Our Other Core Innovations

In addition to the Music Genome Project, we have developed other proprietary technologies to improve delivery of the Pandora service, enhance the listener experience and expand our reach. Our other core innovations include:

Playlist Generating Algorithms. We have developed complex algorithms that determine which songs play and in what order on each personalized station. Developed since 2004, these algorithms combine the Music Genome Project with the individual and collective feedback we receive from our listeners in order to deliver a personalized listening experience.

Pandora User Experience. We have invested in ways to enable us to reach our audience anytime, anywhere that they enjoy radio. To this end, we have developed a number of innovative approaches, including our autocomplete station creation feature, which predicts and generates a list of the most likely musical starting points as a listener begins to

enter a favorite station, song or artist. In 2016, we undertook a complete rebuild of the Pandora web interface, which included a redesign of our systems, graphics and functionality for the end user.

Royalties Ingestion and Matching. We have developed a system to ingest ownership information from rightsholders and to match ingested ownership information with the tracks in our catalog for our ad-supported and subscription services.

Pandora Mobile Streaming. We have designed a sophisticated system for streaming content to mobile devices. This system involves a combination of music coding programs that are optimized for mobile devices as well as algorithms designed to address the intricacies of reliable delivery over diverse mobile network technologies. For example, these algorithms are designed to maintain a continuous stream to a listener even in circumstances where the mobile data network may be unreliable. Our subscription service now includes predictive offline listening which detects when a mobile device has lost its signal and automatically transitions the listener to one of their top recent stations.

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Pandora Automotive Protocol. We have developed an automotive protocol to facilitate increased availability of the Pandora service in automobiles. Through this automotive protocol, certain automobile manufacturers, their suppliers and makers of aftermarket audio systems can easily connect dash-mounted interface elements to the Pandora app running on a smartphone. This allows us to deliver the Pandora service to listeners via their existing smartphone, while leveraging the automobile itself for application command, display and control functionalities.

Pandora API. As part of our effort to make the Pandora service available everywhere our listeners want it, we have developed an application programming interface, which we call the Pandora API. Through our partnerships with manufacturers of consumer electronics products, we have used this technology to bring the Pandora experience to connected devices throughout the home.

tv.pandora.com. We have developed a standards-based HTML5 website called tv.pandora.com that allows users to stream music content on next generation TV, game consoles and set top box architectures that support open web standards. tv.pandora.com features streamlined navigation with controls and displays designed specifically for larger screens.

Next Big Sound ("NBS")

NBS Platform. NBS is the leading provider of online music analytics and insights tracking hundreds of thousands of artists around the world. NBS was founded in 2009 and tracks social, streaming and video data in one centralized platform. Sources range from Facebook and Twitter to Wikipedia, YouTube, Vevo, Instagram and many others. The NBS platform complements Pandora's Artist Marketing Platform ("AMP") and expands the suite of data-driven products that Pandora offers music makers and direct deal partners.

Ticketing Service

Fully-Integrated Cloud Ticketing Platform. Ticketfly has developed a fully-integrated cloud ticketing platform for live events. The ticketing and marketing software powers

Distribution and Partnerships

Pandora—Internet Radio Service

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

Pandora is integrated with connected devices, including automobiles, automotive aftermarket devices and consumer electronic devices. Currently, most automobile integrations rely on smartphones for internet connectivity, which has enabled Pandora to be available in the ten best-selling passenger vehicles in the United States. Some automobiles are now using embedded, built-in internet connectivity to power the Pandora experience. These native integrations, whether using embedded or phone-based connectivity, allow drivers to control the service via in-dash entertainment systems. As part of this ongoing effort to extend our reach in the car, we also built support for Android Auto and Apple CarPlay into our mobile applications in 2015. While these platforms are still nascent, we expect these platforms will develop and grow significantly and help broaden our reach and provide consumers with additional flexibility for

accessing Pandora in the car. As of December 31, 2016, approximately 24.9 million unique users have activated Pandora through a native integration in 27 major automobile brands and 8 automotive aftermarket manufacturers. We view the integration of the Pandora service into automobiles as an area of potential growth for the service, as a large portion of terrestrial radio listening occurs in automobiles.

Ticketing Service

Our ticketing services are available through multiple distribution channels, including the Ticketfly website, the websites of Ticketfly's venue and promoter clients, box offices, the Ticketfly mobile app and the Ticketfly website optimized for mobile devices. Tickets for events are delivered to fans through a variety of delivery methods, including mail, will call, print at home and mobile tickets, which are delivered electronically and presented by fans on their smartphones upon arrival to the venues. In 2016, we began the first stages of integrating Ticketfly into the Pandora mobile app. Listeners can now receive concert

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recommendations based on the listener's listening profile, concert reminders and purchase tickets to Ticketfly concerts, all from within the Pandora mobile app.

Ticketfly contracts with clients to sell tickets for events to fans over a set period of time, which generally ranges from three to five years. Ticketfly does not set ticket prices or seating configurations for events, as this information is determined by the client. Ticketfly generally is paid a fee per ticket sold, which usually increases as the face value of the ticket increases, or a percentage of the total ticket service charges. Ticketfly usually receives funds for the ticket sales and related service charges at the time the ticket is sold and periodically remits these receipts to the client after deducting Ticketfly's portion of the fee. Clients also sell tickets through the box office at the venue using the Ticketfly technology. Ticketfly does not usually earn a fee on these box office ticket sales.

Pandora Advertising Revenue

We derive the substantial majority of our revenue from the sale of audio, display and video advertising for delivery across our computer, mobile and other connected device platforms. We generate the majority of our revenue from mobile and other connected devices, which presents an opportunity for us to reach our audience anytime, anywhere that they enjoy music and therefore offer additional distribution channels to current and potential advertisers for delivery of their advertising messages.

Our advertising strategy focuses on developing our core suite of audio, display and video advertising products and marketing these products to advertisers for delivery across computer and mobile and other connected device platforms. Our advertising products allow both local and national advertisers to target and connect with listeners based on attributes including age, gender, zip code and content preferences using multi-platform ad campaigns to target their advertising messages to listeners anytime and anywhere. As listenership on our mobile platforms has grown more rapidly than on our other platforms, we have sought to improve our mobile advertising products to better enable us to market multi-platform advertising solutions. In the years ended December 31, 2014, 2015 and 2016, advertising revenue accounted for approximately 80%, 80% and 77% of our total revenue, respectively, and we expect that advertising will comprise a substantial majority of revenue for the foreseeable future.

Pandora Audio Advertising. Our audio advertising products allow custom audio messages to be delivered between music and comedy content during short ad interludes on our ad-supported service. Audio ads are available across all of our delivery platforms. On supported delivery platforms, the audio ads can be accompanied by display ads to further enhance advertisers' messages.

Pandora Display Advertising. Our display advertising products offer opportunities to maximize advertising exposure to listeners of our ad-supported service on computers and mobile platforms. The graphical interface for our services on these delivery platforms is divided between our tuner, which contains our player and "now playing" information, and the information space surrounding our tuner. Our display ads include industry-standard banner ads of various sizes and placements within the information space surrounding our tuner, depending on the delivery platform and listener interaction.

Pandora Video Advertising. Our video advertising products allow delivery of rich, branded messages to further engage listeners of our ad-supported service. We currently offer five video ad products, all of which offer full-screen video when activated. Some video ad products operate across our mobile and computer platforms, while others operate only on our mobile platform. All are designed to ensure they are viewable while playing, using interactions with Pandora to determine when a user is engaged with the screen. Some of our products play a full-screen video, and others go even further to offer a value exchange where opting into watching a video ad gives the listener benefits such as extra skips, song replays and even the ability to accept sponsorship by one advertiser in return for uninterrupted listening for a period of time.

Pandora Advertising Technologies. We have developed a suite of proprietary advertising technologies including order management, advertising serving and timing, native advertising formats, targeting and reporting. These technologies enable Pandora to streamline the quote to cash flow, maximize value for advertisers, simultaneously optimize yield and listener experience and personalize the advertising experience for listeners.

Pandora Native Advertising. Our audio, display and video advertising products can be designed and modified by us and advertisers to tailor advertising campaigns to fit specific advertiser needs. Our advertisers can create custom "branded" stations from our music library that can be accessed by listeners of our ad-supported and subscription services, as well as engage listeners by allowing them to personalize the branded stations through listener-controlled variables. In addition to branded stations, we offer advertisers our sponsored listening product, in which advertisers sponsor ad-free listening for listeners of our

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ad-supported service in exchange for the listener's active brand interaction, such as watching a video advertisement, interacting with rich media or visiting the advertiser's landing page.

Pandora Audience Targeting. Our audio, display, video and native advertising products have access to a set of over 2,000 targeting segments across all of our platforms, ranging from Pandora's unique proprietary targeting segments to second- and third-party enabled segments. Examples include Pandora's inferred Spanish Speakers and Political Preference proprietary segments, direct customer CRM upload and Datalogix and Neustar third-party segments. Additionally, advertisers can benefit from our proprietary ad targeting capabilities, which leverage listener-submitted profile information, enabling advertisers to precisely reach sought-after consumers without needing third-party cookies.

Pandora's advertising inventory is integrated into the leading radio media buying platforms, Mediaocean and STRATA, and we are continuing to enhance the ability of radio advertisers to purchase media on these platforms, which incorporate Triton measurements of our radio audience reach side-by-side with terrestrial radio metrics.

We provide in-car advertising solutions, offering advertisers the opportunity to reach in-car audiences through audio ads running on vehicle models and aftermarket automotive devices with native Pandora automotive integrations.

In addition, we have invested in building a local advertising sales force in major radio markets. As of December 31, 2016, Pandora has 153 local sellers in 39 markets in the United States and we intend to continue investing to extend our local market presence for the foreseeable future.

We have introduced a programmatic advertising buying solution into the market primarily for national digital display and remnant performance advertising inventory. We intend to continue investing in our programmatic advertising buying solution in the future.

Our integration into standard radio media-buying processes and measurement, our in-car advertising solutions, our local advertising sales force and our programmatic advertising buying solution are key elements of our strategy to expand our penetration of the radio advertising market. Our success in executing this strategy is subject to numerous risks and uncertainties, including those described in "Risk Factors."

Pandora Subscription and Other Revenue

Prior to the launch of Pandora Plus, subscription and other revenue was generated primarily through the sale of Pandora One. Subsequent to the launch of Pandora Plus, subscription and other revenue is generated primarily through the sale of Pandora Plus. Pandora Plus is an enhanced version of the Pandora service, which currently includes product features such as replays, additional skipping and offline listening, together with our advertisement-free access and higher audio quality on the devices that support it. Pandora Plus is primarily available for purchase through major app stores and through the Pandora website. For the years ended December 31, 2014, 2015 and 2016, subscription and other revenue accounted for 20%, 19% and 16% of our total revenue, respectively.

Ticketing Service Revenue

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. As Ticketfly was acquired on October 31, 2015, the consolidated statements of operations include

ticketing service revenue for the two months ended December 31, 2015 and the year ended December 31, 2016. For the years ended December 31, 2015 and 2016, ticketing service revenue accounted for approximately 1% and 6% of our total revenue. We had no ticketing service revenue in the year ended December 31, 2014.

Pandora Content, Copyrights and Royalties

The content we stream to users of the Pandora service consists primarily of music. To stream music, we must obtain licenses from, and pay royalties to, copyright owners, or their agents, for each sound recording that we stream, as well as for each underlying musical work, subject to certain exclusions. These licensing and royalty arrangements strongly impact our business operations. Refer to our discussion of these matters in Item 1A—"Risk Factors".

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In 2015 and 2016, we signed direct license agreements with major and independent labels and distributors for sound recordings as well as publishers and composers for the musical works contained in such sound recordings. These agreements allow us to provide new and improved products that include enhanced features such as replays of the sound recordings, additional skipping capability, offline stations and on-demand listening. Certain of these license agreements include minimum guarantee payments, some of which are paid in advance. Refer to Note 2, "Summary of Significant Accounting Policies" for our policy on prepaid content acquisition costs.

Sound Recordings

Prior to signing direct license agreements with major and independent labels and distributors, we obtained all performance rights licenses and paid performance rights royalties mainly pursuant to the Digital Performance Right in Sound Recordings Act of 1995 (the "DPR") and the Digital Millennium Copyright Act of 1998 (the "DMCA"). Under federal statutory licenses created by the DPR and the DMCA, we are permitted to stream any lawfully released sound recordings and to make reproductions of these recordings on our computer servers without having to separately negotiate and obtain direct licenses with each individual sound recording copyright owner. These statutory licenses are available on the condition that we operate in compliance with the rules of the statutory licenses and pay the applicable royalty rates.

Prior to signing direct license agreements with major and independent labels and distributors, we paid all performance rights royalties for sound recordings we streamed on our services to SoundExchange, the non-profit organization designated by the Copyright Royalty Board (the "CRB"), a tribunal established within the U.S. Library of Congress, to collect and distribute royalties under these statutory licenses. On December 16, 2015, the CRB announced the new per-performance rates that apply for commercial webcasters for calendar years 2016 through 2020 (the "Web IV Proceeding"). Absent direct licenses in place with major and independent labels and distributors, effective January 1, 2016, the content acquisition costs we paid for sound recordings were set by the Web IV Proceeding. The rates for non-subscription services, including our ad-supported service, were set at \$0.0017 per performance for 2016. The rates for subscription services, applicable to our Pandora One service, were set at \$0.0022 per performance for 2016. Subsequent to September 15, 2016, the majority of the content acquisition costs related to our ad-supported and subscription services are driven by direct license agreements with major and independent labels and distributors. Depending on the applicable service, these license agreements generally require us to pay either a per-performance fee based on the number of sound recordings we transmit, a percentage of revenue associated with the service or a per-subscriber minimum amount, all generally subject to certain discounts. Certain of these license agreements include minimum guarantee payments, some of which are paid in advance.

If we have not entered into a direct license agreement with the copyright owner of a particular sound recording that is streamed on our services, we stream that sound recording pursuant to the statutory license and pay the applicable Web IV Proceeding rate. Enhanced features of our services, such as replays of sound recordings, additional skipping capability and offline stations, are not available for sound recordings streamed under the statutory license and paid at the Web IV Proceeding rate.

Musical Works

Our content costs also include the royalties we pay for the musical works embodied in the sound recordings that we stream. Prior to January 1, 2016, we obtained the rights to stream musical works on both our ad-supported and subscription services by obtaining so-called "blanket" licenses from performing rights organizations ("PROs"), such as the American Society of Composers, Authors and Publishers ("ASCAP"), Broadcast Music, Inc. ("BMI"), SESAC, Inc. ("SESAC") and Global Music Rights ("GMR"). These PROs are organized to aggregate rights in musical works from millions of songwriters and publishers, negotiate blanket licenses with copyright users (such as Pandora), collect royalties under such licenses and distribute them to copyright owners. The blanket licenses that we obtained from

PROs traditionally obligated us to pay a percentage of our revenue or a flat fee.

In 2015 and 2016, we signed new direct license agreements with PROs and thousands of music publishers that grant us the rights to stream musical works under their control on both our ad-supported and subscription services for a multi-year period. Prior to September 15, 2016, the combined effect of these licenses was that each copyright holder received its usage-based and ownership-based share of a royalty pool equal to 20% of the content acquisition costs paid by us for sound recordings on the respective tier of service. Subsequent to September 15, 2016, this calculation still applies to our ad-supported service, but content acquisition costs for the streaming of musical works on our subscription services are equal to the rates determined in accordance with the statutory license set forth in 17 U.S.C. §115 ("Section 115"). If we have not entered into a

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direct license agreement with the copyright owner of a particular musical work, or a PRO representing the copyright owner, then we stream that musical work pursuant to the Section 115 statutory license and pay the applicable rate.

Rate-Setting Proceedings for Reproduction Rights under Section 115

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

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

Non-U.S. Licensing Regimes

In addition to the copyright and licensing arrangements described above for our use of sound recordings and musical works in the United States, we have obtained licenses in Australia and New Zealand for the communication of sound recordings and the musical works embodied in those sound recordings, which have not had a material effect on our results of operations to date.

Government Regulation

As a company conducting business on the internet, we are subject to a number of foreign and domestic laws and regulations relating to consumer protection, information security and data protection, among other things. Many of these laws and regulations are still evolving and could be interpreted in ways that could harm our business. In the area of information security and data protection, the laws in several states require companies to implement specific information security controls to protect certain types of information. Likewise, all but a few states have laws in place requiring companies to notify users if there is a security breach that compromises certain categories of their information. We are also subject to federal and state laws regarding privacy of listener data, among other things. Our privacy policy and terms of use describe our practices concerning the use, transmission and disclosure of listener information and are posted on our website.

Sales and Marketing

Pandora—Internet Radio Service

We organize our Pandora sales force into multiple geographically-based teams that are each focused on selling advertising across our computer, mobile and other connected device platforms. Teams are located in our Oakland, California headquarters, in regional sales offices throughout the United States and local sales offices throughout the United States, in Australia and in New Zealand.

Our marketing team is charged with using all forms of communications to reach our business and reputational goals. We organize the marketing team into four groups focused on campaign planning and analytics, consumer marketing, communications and our Music Makers Group. While we have historically relied on the success of viral marketing to expand consumer awareness of our service, in 2014 we began to launch marketing campaigns to increase consumer awareness and expand our listener base and in 2015, we began to launch advertising campaigns to increase the awareness of our brand. We anticipate that we will continue to utilize these types of advertising campaigns in the future.

Ticketing Service

The Ticketfly sales force is organized into various teams based on vertical, such as client type, and is focused on obtaining contracts with clients to sell tickets on the Ticketfly platform. Teams are located in the Ticketfly headquarters in San Francisco, California and in local sales offices throughout the United States and in Canada.

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Artist Relations

Pandora Music Makers Group

In 2014, to consolidate all of our music industry initiatives, and to help drive connections with fans across all channels at Pandora, we brought the teams across the business that work most directly with the music industry together into a single group known as the Music Makers Group. Our vision is to ensure artists can promote and market their music to fans, drive engagement with experiences from live events to original content and audio messages to fans and understand all of the benefits of these interactions via our analytics tools.

Pandora Artist Marketing Platform

Pandora AMP consists of products and programs that enable music makers to leverage data to grow an audience, track progress and connect with fans on Pandora. Since its original launch focusing on artist data and insights in 2014, AMP has evolved into a set of powerful self-serve marketing tools including Artist Audio Messaging, AMPcast and Featured Tracks. Newly added features of AMP, which include a dynamic feed of an artist's campaign, performance metrics and suggestions for new campaigns, were launched in October 2016 alongside a data integration with Next Big Sound, shifting artist insights and analytics to the NBS platform and enhancing the set of desktop and mobile marketing tools offered via AMP.

Derived from tens of billions of hours of personalized listening on Pandora, the marketing tools on AMP along with the analytics tools on NBS are available to all artists spinning on Pandora and their teams. Additionally, enterprise-level tools and marketing opportunities are available to artist and label teams who have opted into a direct deal with Pandora.

Competition

Pandora—Internet Radio Service

Competition for Listeners

We compete for the time and attention of our listeners with other content providers on the basis of a number of factors, including quality of experience, relevance, acceptance and perception of content quality, ease of use, price, accessibility, perceptions of ad load on our ad-supported service, brand awareness and reputation. We also compete for listeners on the basis of our presence, branding and visibility as compared with other providers that deliver content through the internet, mobile devices and consumer products. We believe that we compete favorably on these factors. For additional details on risks related to competition for listeners, please refer to Item 1A—"Risk Factors."

Many of our current and potential future competitors enjoy competitive advantages, such as greater name recognition, legacy operating histories and larger marketing budgets, as well as greater financial, technical and other resources. We compete with many forms of digital media for the time and attention of our listeners, such as Facebook, Twitter, Netflix, Pinterest and Instagram. Our direct audio competitors, however, include iHeartRadio, LastFM and other companies in the traditional broadcast and internet radio market. We also directly compete with the non-interactive, internet radio offerings from providers such as Spotify, Apple Music, Tidal, Google Play Music and Slacker.

We compete for listeners with broadcast radio providers, including terrestrial radio providers. Many broadcast radio conglomerates own large numbers of radio stations or other media properties. Many terrestrial radio stations broadcast digital signals, which provide high quality audio transmission. We compete for listeners indirectly with satellite radio providers, whose content is more heavily skewed to spoken word and talk, sports and business-related content versus traditional radio whose content is more heavily skewed to music.

Broadcast and satellite radio companies generally enjoy larger established audiences and a significant cost advantage because they pay a much lower percentage of revenue for content acquisition costs. Broadcast radio companies pay no content acquisition costs for the radio broadcast of sound recordings, and satellite radio companies paid only 10.5% of revenue in 2016 and will pay only 11% of revenue in 2017 for satellite transmissions of sound recordings. By contrast, Pandora incurred content acquisition costs for our internet transmissions of sound recordings representing 44.2% of total revenue during the year ended December 31, 2016.

We also face competition for listeners and listener hours from on-demand music streaming services such as Spotify, Apple Music, YouTube, SoundCloud, Google Play Music, Amazon Prime, Rhapsody, and Deezer. These services offer consumers the ability to choose the songs and artists they want to hear and create customized playlists - functionality that our

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service does not currently provide. When Pandora Premium launches in 2017, we will more directly compete against these on-demand services. This on-demand content is accessible in automobiles and homes, using portable players, mobile phones and other wireless and consumer electronic devices. The audio entertainment marketplace continues to rapidly evolve, providing our listeners with a growing number of alternatives and new media platforms.

At a macro level, we compete for the time and attention of our listeners with providers of other forms of in-home and mobile entertainment. To the extent existing or potential listeners choose to watch cable television, stream video from on-demand services or play interactive video games on their home-entertainment system, computer or mobile phone rather than listen to the Pandora service, these content services pose an adjacent competitive threat for consumer time and mindshare.

Competition for Advertisers

We compete with traditional media products and services, and with other internet-based services, for a share of our advertising customers' overall marketing budgets. We compete on the basis of a number of factors, including perceived return on investment, effectiveness and relevance of our advertising products, reporting and pricing structure and ability to deliver large volumes or precise types of ads to targeted demographics. We believe that our ability to deliver targeted and relevant ads across a wide range of platforms allows us to compete favorably on the basis of these factors and justify a long-term profitable pricing structure. However, the market for online advertising is intensely competitive and rapidly changing, and with the introduction of new technologies and market entrants, we expect competition to intensify in the future.

The market for online advertising has become increasingly competitive, yet advertisers are allocating increasing amounts of their overall marketing budgets to online advertising. We compete for online advertisers with other internet companies, including major internet portals, search engine companies and social media sites. Large internet companies with greater brand recognition have significant numbers of direct sales personnel, more advanced programmatic advertising capabilities and substantial proprietary advertising inventory and web traffic that provide a significant competitive advantage and have a significant impact on pricing for internet advertising and web traffic.

Terrestrial broadcast, and to a lesser extent satellite radio, are sources of competition for advertising dollars. These radio providers deliver ads across a more familiar platform than the internet may be to traditional advertisers.

Our competitors include Facebook, Google, Snap, Yahoo! and traditional media such as ABC, CBS, FOX, NBC, The New York Times and the Wall Street Journal. We directly compete against iHeartRadio, Entercom, CBS Radio, Cumulus and other companies of the traditional broadcast radio market. For additional details on risks related to competition for advertisers, please refer to Item 1A—"Risk Factors."

Ticketing Service

Competition for Clients

We compete with other online live events technology and primary ticketing companies for contracts with our clients, which are promoters and venues. We compete on the basis of a number of factors, including our ability to sell tickets and provide enhanced fan experiences. Our ticketing platform also offers website, email, social marketing, booking, analytics, fan CRM and other tools for our clients. Cloud technology has made it easier for other technology-based companies to offer primary ticketing services and standalone, automated ticketing systems that enable venues to perform their own ticketing services or utilize self-ticketing systems. We also experience competition from other national, regional and local primary ticketing service providers to secure contracts with new promoters and venues. Our main competitors for clients include primary ticketing companies such as Live Nation Entertainment's

Ticketmaster division, Tickets.com, AXS and Paciolan and upstart providers such as Eventbrite and eTix. Some of these competitors have greater brand recognition, and financial, technical and other resources, than we do.

Competition for Fans

We compete with other live events technology and primary ticketing companies, as well as secondary ticketing companies for ticket sales to fans. We compete on the basis of a number of factors, including our ability to reach fans and provide enhanced fan experiences. The ticketing services industry includes the sale of tickets primarily through online channels, but also through telephone, mobile devices and ticket outlets. In the online environment, we compete with other websites, live events technology and ticketing companies to provide event information, sell tickets and provide other online services. We experience competition from other national, regional and local primary ticketing service providers to reach fans for events. Resale, or secondary, ticketing services have created automated internet "bot" technology to attempt to bypass

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queues and buy tickets when they go on sale, so that these services may then re-sell those tickets to fans at increased prices. Our main competitors for fans include primary ticketing companies such as Live Nation Entertainment's Ticketmaster division, Tickets.com, AXS and Paciolan, upstart providers such as Eventbrite and eTix and secondary ticketing companies such as StubHub.

Seasonality

Pandora—Internet Radio Service

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 fourth quarter of each calendar year. In addition, in the first quarter of each calendar year, we expect to experience lower advertising sales due to reduced advertiser demand, and increased usage by listeners due to increased use of media-streaming devices received as gifts during the holiday season. See the section entitled "Business Trends" in Item 7 of this Annual Report on Form 10-K for a more complete description of the seasonality of our financial results.

Ticketing Service

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

Intellectual Property

Our success depends in part upon our ability to protect our technologies and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including trade secrets, patents, copyrights, trademarks, contractual restrictions, technological measures and other methods. We enter into confidentiality and proprietary rights agreements with our employees, consultants and business partners, and we control access to and distribution of our technology and proprietary information.

We have filed and acquired dozens of active patent applications and issued patents in the United States and other countries. We continue to pursue additional patent protection, both in the United States and abroad where appropriate and cost effective. We intend to hold these patents as part of our strategy to protect and defend Pandora in patent-related litigation. We also acquire patents and patent applications from time to time as part of other transactions.

Our registered trademarks in the United States include "Pandora," the "Music Genome Project," and "Ticketfly," in addition to a number of Pandora logos and other Pandora marks. "Pandora" is also registered in Australia, Canada, Chile, the European Union, India, Israel, Korea, Mexico, New Zealand, Switzerland, Taiwan and other countries. "Music Genome Project" is also registered in Australia, Canada, China and New Zealand. We have pending trademark applications in the United States and other countries for Pandora names and marks.

We are the registrant of the internet domain names for our primary websites, pandora.com and ticketfly.com, as well as others related to our current and potential businesses.

In addition to the forms of intellectual property listed above, we own rights to proprietary processes and trade secrets, including those underlying the Pandora service. We use contractual, policy and technological means to generally

control access to, use and distribution of our proprietary software, trade secrets and other confidential information, both internally and externally, including contractual protections with employees, contractors, customers and partners.

Customer Concentration

For each of the years ended December 31, 2014, 2015 and 2016, we had no individual customers that accounted for 10% or more of total revenue.

Information About Segment and Geographic Revenue

Information about segment data and geographic revenue is set forth in Note 12 of the Notes to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

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Employees

As of December 31, 2016, we had 2,488 employees. None of our employees are covered by collective bargaining agreements, and we consider our relations with our employees to be good.

Corporate and Available Information

We were incorporated as a California corporation in January 2000 and reincorporated as a Delaware corporation in December 2010. Our principal executive offices are located at 2101 Webster Street, Suite 1650, Oakland, California 94612 and our telephone number is (510) 451-4100. Our website is located at www.pandora.com and our Investor Relations website is located at investor.pandora.com.

We changed our fiscal year to the calendar year ending December 31, effective beginning with the period ended December 31, 2013. As a result, the period ended December 31, 2013 was shortened from a year to an eleven-month transition period.

We file reports with the Securities and Exchange Commission ("SEC"), including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any other filings required by the SEC. Such reports and other information filed by us with the SEC are available free of charge on our website at investor.pandora.com when such reports are available on the SEC's website. The information on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Investors and others should note that we use our Investor Relations website, SEC filings, press releases, public conference calls and webcasts as means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. We use these channels as well as social media to communicate with the public about the Company, our services and other issues. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in the Company to review the information we post on the social media channels listed on our Investor Relations website.

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ITEM 1A. RISK FACTORS

The risks and uncertainties set forth below, as well as other factors described elsewhere in this Annual Report on Form 10-K or in other filings by us with the SEC, could adversely affect our business, financial condition, results of operations and the trading price of our common stock. Additional risks and uncertainties that are not currently known to us or that are not currently believed by us to be material may also harm our business operations and financial results. Because of the following factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business

Our ability to offer interactive features in our services depends upon maintaining commercially viable direct licenses with copyright owners of the music we play. If we are not able to maintain these direct licenses, we could lose the right to provide interactive features in our current services, or launch an on-demand music service. If we are not able to renew these direct licenses on similar terms when they expire, our profitability may be negatively affected.

Prior to September 15, 2016, we obtained the right to publicly perform music sound recordings on our services in the U.S. primarily through a statutory license at rates set by the Copyright Royalty Board. In 2015 and 2016, we entered into direct license agreements with dozens of music sound recording copyright owners, commonly known as "record labels", with thousands of musical work copyright owners, commonly known as "publishers", and with ASCAP, BMI and SESAC, the three largest performing rights organizations, commonly known as "PROs". In total, these agreements give us the right to add interactive features such as replays, additional skips and offline play to our current ad-supported and subscription radio services in the U.S., which features we introduced on September 15, 2016, and they also give us the right to launch our recently announced on-demand music service in the U.S., Pandora Premium, which we intend to launch in 2017. We continue to rely on the U.S. statutory license to publicly perform music sound recordings that are not covered by our direct licenses with record labels, but those recordings now constitute a small portion of the music that we stream. The direct licenses we have entered into with record labels and publishers are complex and require significant on-going efforts to operationalize, and there is risk that we may not be able to comply with the terms of these licenses, which could result in the loss of some or all of these licenses and some or all of the rights they convey. Similarly, many of these licenses provide that if the licensor loses rights in a portion of the content licensed under the agreement, that content may be removed from the license going-forward. In addition, if we are acquired, certain terms of our direct licenses, including favorable rates for content acquisition costs that currently apply to us, may not be available to an acquiror. If we were to fail to maintain any of these direct licenses, or if rights to certain music were no longer available under these licenses, then we may have to remove the affected music from our services, or discontinue certain interactive features for such music, or it might become commercially impractical for us to launch an on-demand music service. Any of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

Several of these direct licenses also include so-called "most favored nations" provisions, which, if triggered, could cause our payments under those agreements to escalate substantially. In addition, record labels, publishers and PROs with whom we have entered into direct licenses have the right to audit our content acquisition payments, and any such audit could result in disputes over whether we have paid the proper content acquisition costs. If such a dispute were to occur, we could be required to pay additional content acquisition costs, audit fees and interest or penalties, and the amounts involved could materially and adversely affect our business, financial condition and results of operations. Pursuant to the statutory license under which we streamed most of our sound recordings prior to September 15, 2016, and under which we will stream a small portion of our sound recordings going forward, SoundExchange, Inc. ("SoundExchange") has the right to audit our content acquisition payments thereunder. SoundExchange is currently conducting audits of our payments for the years 2010 to 2014.

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

Minimum guarantees required under certain of our music license agreements may limit our operating flexibility and could adversely affect our liquidity and results of operations.

As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 8, Commitments and Contingencies", certain of our music license agreements contain minimum guarantees and require that we

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make upfront minimum guarantee payments. As of December 31, 2016, we have future minimum guarantee commitments of \$763.0 million. Such minimum guarantees related to our content acquisition costs are not tied to our number of subscribers, active users or the number of sound recordings used on our services. As such, our ability to achieve and sustain profitability and operating leverage on our services depends on our ability to increase our revenue through increased paid subscriptions and advertising sales on terms that maintain an adequate gross margin. Given the multiple-year duration and largely fixed cost nature of these minimum guarantees, if subscriber acquisition and retention or advertising sales do not meet our expectations, our margins may be materially and adversely affected. To the extent subscriber and subscription revenue growth or advertising sales do not meet our expectations, our liquidity and results of operations could also be adversely affected as a result of such minimum guarantees. In addition, the long-term and fixed cost nature of these minimum guarantees may limit our flexibility in planning for, or reacting to, changes in our business and the market segments in which we operate.

We rely on estimates of the market share of licensable content controlled by each content provider to forecast whether such minimum guarantees will be recoupable against our actual content acquisition costs incurred over the duration of the license agreement. To the extent that these market share estimates are incorrect and our actual content acquisition costs for a particular content provider is less than the amount of the minimum guarantee, our margins may be materially and adversely affected.

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

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

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

Our ability to continue to attract and retain users of our paid subscription services will depend in part on our ability to consistently provide our subscribers with a quality experience through Pandora Plus and Pandora Premium, our on-demand subscription offering that we intend to launch in 2017. If Pandora Plus subscribers do not perceive that offering to be of value, or if we introduce new or adjust existing features or pricing in a manner that is not favorably received by them, we may not be able to attract and retain subscribers or be able to convince listeners to become subscribers of such additional service offerings. Subscribers may cancel their subscription to our service for many reasons, including a perception that they do not use the service sufficiently, the need to cut household expenses, competitive services that provide a better value or experience or as a result in changes in pricing. Further, in a number of cases, the rates that we pay pursuant to our direct license agreements with record labels are significantly affected by

the number of subscribers we are able to attract and retain. If our efforts to attract and retain subscribers are not successful, our business, operating results and financial condition may be adversely affected.

If we are unsuccessful at launching Pandora Premium, our on-demand subscription offering, our business may be adversely affected.

Our acquisition of certain assets of Rdio in December 2015 was intended to facilitate our launch of new subscription offerings that provide additional functionality, including our Pandora Plus service, launched on September 15, 2016, and Pandora Premium, our on-demand subscription offering that we intend to launch in 2017. In addition to the cost of the Rdio assets, the development and launch of such additional service offerings has required and will continue to require significant engineering as well as marketing and other resources. In addition, to support the launch of these services we have entered into direct license agreements with the major record labels, which agreements entail substantial minimum guaranteed content acquisition cost payments by us. There is no assurance that we will be able to successfully develop and launch Pandora

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Premium, or obtain and maintain the content license rights to enable the offering of Pandora Plus and Pandora Premium. Further, in a number of cases, our direct license agreements with record labels require that we launch an on-demand subscription offering, and the rates for content acquisition costs payable under certain of our direct license agreements with record labels are significantly affected by the number of subscribers we are able to attract and retain to our subscription services, including Pandora Premium. If we fail to accomplish any of the foregoing, or if the additional service offerings are unsuccessful, we will not realize the benefits of the Rdio asset acquisition or the substantial investment made in the development of such additional product offerings.

Our inability to obtain accurate and comprehensive information necessary to identify the ownership of sound recordings and musical works used on our services may impact our ability to perform our obligations under our licenses from the copyright holders, may require us to remove or decrease the number of performances of certain music on our services, and may subject us to potential copyright infringement claims and difficulties in controlling content acquisition costs.

We currently rely on the assistance of third parties to determine comprehensive and accurate rightsholder information for the sound recordings and the musical works underlying the sound recordings that we use on our services. If the information provided to us does not comprehensively or accurately identify which labels, artists, composers, songwriters or publishers own or administer sound recordings or musical works, or if we are unable to determine which musical works correspond to specific sound recordings, it may be difficult to identify the appropriate rightsholders to pay under our direct licenses, and it may also be difficult to comply with other obligations under those agreements. Further, our inability to accurately identify rights holders may prevent us from obtaining necessary additional licenses, which could lead to a reduction in the music available to stream on our service, adversely impacting our ability to retain and expand our listener base. Such a lack of ownership data may also make it difficult to identify the sound recordings that we should remove from our service, which may subject us to significant liability for copyright infringement.

We also rely on the assistance of third parties to provide notices of intent ("NOIs") for a compulsory license under Section 115 of the Copyright Act to those copyright owners with whom we do not have a direct license agreement or whose contact information is unavailable or unknown. If the third parties on which we rely do not provide NOIs to the correct parties (including the United States Copyright Office for unknown copyright owners), or to all parties who should receive an NOI, or do not serve the NOI in a timely manner, we may be subject to significant liability for copyright infringement.

We are not able to obtain licenses for the underlying literary works for the sound recordings of spoken-word comedy content that we stream. Third parties could assert copyright claims against us as a result.

We stream spoken word comedy content, for which the underlying literary works are not currently entitled to eligibility for licensing by any performing rights organization in the United States. Rather, pursuant to industry-wide custom and practice, this content is performed absent a specific license from any such performing rights organization or individual rights owners, although content acquisition costs are paid to SoundExchange for the public performance of the sound recordings in which such literary works are embodied. There can be no assurance that this industry custom will not change or that we will not otherwise become subject to additional licensing costs for spoken word comedy content imposed by performing rights organizations or individual copyright owners in the future or be subject to claims of copyright infringement.

If we are unable to maintain revenue growth from our advertising products, particularly in mobile advertising, our results of operations will be materially adversely affected.

Our number of listener hours on mobile devices comprised approximately 86% of our total listener hours for the year ended December 31, 2016, and we expect that mobile listener hours will continue to grow more quickly than computer listener hours. The percentage of advertising spending allocated to digital advertising on mobile devices still lags behind that allocated to traditional online advertising. According to eMarketer, the percentage of U.S. advertising spending allocated to advertising on mobile devices was approximately 23% in 2016, compared to approximately 37% for all online advertising. We must therefore continue to convince advertisers of the capabilities of mobile digital advertising opportunities so that they migrate their advertising spend toward demographics and ad solutions that more effectively utilize mobile inventory.

We continue to build our sales capability to penetrate local advertising markets, which we view as a key challenge to monetizing our listener hours, including listener hours on mobile and other connected devices. Our audio advertising capability also places us in direct competition with terrestrial radio, as many advertisers that purchase audio ads focus their spending on terrestrial radio stations who traditionally have strong connections with local advertisers. We cannot foresee whether we will be able to continue to capture local and audio advertising revenue at the current rate of growth, which may have an adverse impact on future revenue and income.

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We continue to work on initiatives that, if successfully implemented, would increase our number of listener hours on mobile and other connected devices, including efforts to expand the reach of our service by making it available on a variety of devices, such as smartphones and devices connected to or installed in automobiles. In order to effectively monetize such increased listener hours, we must, among other things, convince advertisers to migrate spending to nascent advertising markets, penetrate local advertising markets and develop compelling ad product solutions. We may not be able to effectively monetize inventory generated by listeners using mobile and connected devices, or do so in a time frame that supports our business plans.

Advertising spending is increasingly being placed through new data-driven channels, such as the programmatic buying ecosystem, where mobile offerings are not as mature as their web-based equivalents. Because the substantial majority of our listener hours occur on mobile devices, our growth prospects and revenue may be adversely affected if the advertising ecosystem is slow to adopt data-driven mobile advertising offerings.

As new advertising buying technologies, such as programmatic buying, develop around data-driven technologies and advertising products, an increasing percentage of advertising spend is likely to shift to such channels and products. These data-driven advertising products and programmatic buying technologies allow publishers to use data to target advertising toward specific groups of consumers who are more likely to be interested in the advertising message delivered. These advertising products and programmatic technologies are currently more developed in terms of ad technology and industry adoption on the web than they are on mobile. Due to the fact that the substantial majority of our listener hours occur on mobile devices, our ability to attract advertising spend, and ultimately our ad revenue, may be adversely affected by this shift. We have no reliable way to predict how significantly or how quickly advertisers will shift buying to programmatic technologies and data-driven advertising products.

We have developed a data-driven, programmatic advertising capability for mobile in an effort to take advantage of this trend. However, if adoption of mobile programmatic or demand for our mobile programmatic offering lags behind web-based programmatic technologies and competitive offerings, our ability to grow revenue may be adversely affected.

Emerging industry trends in digital advertising measurement and pricing may pose challenges for our ability to forecast or optimize our advertising inventory, which may adversely impact our advertising revenue.

The digital advertising marketplace is introducing new ways to measure and price advertising inventory. Specifically, the industry is in the process of moving from purchasing ad impressions based on the number of ads served by the applicable ad server to a new “viewable” impression standard (based on number of pixels in view and duration) for select products. In the absence of a uniform industry standard, agencies and advertisers have adopted several different billing standards and measurement methodologies. In addition, measurement services may require technological integrations which are still being evaluated by the industry. As these trends in the industry continue to evolve, our advertising revenue may be adversely affected by the availability, accuracy and utility of the available analytics and measurement technologies as well as our ability to successfully implement and operationalize such technologies and standards.

Our failure to convince advertisers of the benefits of our ad-supported service in the future could harm our business.

For the year ended December 31, 2016, we derived 77% of our revenue from the sale of advertising and expect to continue to derive a substantial majority of our revenue from the sale of advertising in the future. Our ability to attract and retain advertisers, and ultimately to sell our advertising inventory to generate advertising revenue, depends on a number of factors, including:

increasing the number of listener hours, particularly within desired demographics;

keeping pace with changes in technology and our competitors;

competing effectively for advertising dollars from other online marketing and media companies;

penetrating the market for local radio advertising;

demonstrating the value of advertisements to reach targeted audiences across all of our delivery platforms, including the value of mobile digital advertising;

ensuring that new ad formats and ad product offerings are attractive to advertisers and that inventory management decisions (such as changes to ad load, frequency, prominence and quality of ads that we serve listeners) do not have a negative impact on listener hours;

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continuing to develop and diversify our advertising platform, which currently includes delivery of display, audio and video advertising products through multiple delivery channels, including computers, mobile and other connected devices; and

dealing with ad blocking technologies that have been developed and are likely to continue to be developed that can block the display of our ads.

Our agreements with advertisers are generally short-term or may be terminated at any time by the advertiser. Advertisers that are spending only a small amount of their overall advertising budget on our service may view advertising with us as experimental and unproven and may leave us for competing alternatives at any time. We may never succeed in capturing a greater share of our advertisers' core advertising spending, particularly if we are unable to achieve the scale and industry penetration necessary to demonstrate the effectiveness of our advertising platforms, or if our advertising model proves ineffective or not competitive when compared to alternatives. Failure to demonstrate the value of our service would result in reduced spending by, or loss of, existing or potential future advertisers, which would materially harm our revenue and business.

Unavailability of, or fluctuations in, third-party measurements of our audience may adversely affect our ability to grow advertising revenue.

Selling ads, locally and nationally, requires that we demonstrate to advertisers that our service has substantial reach and usage. Third-party measurement vendors' technology may not reflect our true listening audience and their underlying methodologies are subject to change at any time. In addition, the methodologies we apply to measure the key metrics that we use to monitor and manage our business may differ from the methodologies used by third-party measurement service providers. For example, 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. By contrast, certain third-party measurement service providers may calculate and report the number of listener hours using a client-based approach, which measures time elapsed during listening sessions. Measurement technologies for mobile and consumer electronic devices may be even less reliable in quantifying the reach, usage and location of our service, and it is not clear whether such technologies will integrate with our systems or uniformly and comprehensively reflect the reach, usage and location of our service. While we have been working with third-party measurement service providers and certain of their measurements have earned Media Ratings Council accreditation, some providers have not yet developed uniform measurement systems that comprehensively measure the reach, usage and location of our service. In order to demonstrate to potential advertisers the benefits of our service, we supplement third-party measurement data with our internal reporting, which may be perceived as less valuable than third-party numbers. If third-party measurement providers report lower metrics than we do, or if there is wide variance among reported metrics, our ability to attract advertisers to our service could be adversely affected.

The lack of accurate cross-platform measurements for internet radio and broadcast radio may adversely affect our ability to grow advertising revenue.

We have invested substantial resources to create accurate cross-platform measurements for internet radio and broadcast radio in the major automated media-buying platforms, attempting to create a one-stop shop that enables media buyers to compare internet radio audience reach with terrestrial radio audience reach using traditional broadcast radio metrics.

Media buying agencies receive measurement metrics from third parties, such as Triton for internet radio and Nielsen for more traditional media like terrestrial radio and television. Media buying agencies may choose not to show, or may be prohibited by contract from showing, internet radio metrics alongside traditional terrestrial metrics. Despite our

efforts to achieve parity within the tools available to media buying agencies, a lack of comparable internet radio metrics in these buying tools could have a materially negative effect on our ability to sell advertising on our service and achieve our revenue goals.

If we are unable to continue to make our technology compatible with the technologies of third-party distribution partners who make our service available to our listeners through mobile devices, consumer electronic products and automobiles, we may not remain competitive and our business may fail to grow or decline.

In order to deliver music everywhere our listeners want to hear it, our service must be compatible with mobile, consumer electronic, automobile and website technologies. Our service is accessible in part through both Pandora-developed and third-party developed apps that hardware manufacturers embed in, and distribute through, their devices. Most of our agreements with makers of mobile operating systems and devices through which our service may be accessed, including Apple and Google, are short-term or can be canceled at any time with little or no prior notice or penalty. The loss of these agreements, or the renegotiation of these agreements on less favorable economic or other terms, could limit the reach of our service and its

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attractiveness to advertisers. Some of these mobile device makers and operating system providers, including Apple, Amazon, Samsung and Google, are now, or may in the future become, competitors of ours, and could stop allowing or supporting access to our service through their products for competitive reasons.

Connected devices and their underlying technologies are constantly evolving. As internet connectivity of automobiles, mobile devices and other consumer electronic products expands and as new internet-connected products are introduced, we must constantly adapt our technology. It is challenging to keep pace with the continual release of new devices and technological advances in digital media delivery. If manufacturers fail to make products that are interoperable with our technology or we fail to adapt our technology to their evolving requirements, our ability to grow or sustain the reach of our service, increase listener hours and sell advertising could be adversely affected.

Consumer tastes and preferences can change in rapid and unpredictable ways and consumer acceptance of these products depends on the marketing, technical and other efforts of third-party manufacturers, which is beyond our control. If consumers fail to accept the products of the companies with whom we partner or if we fail to establish relationships with makers of leading consumer products, our business could be adversely affected.

If our efforts to attract prospective listeners and to retain existing listeners are not successful, our growth prospects and revenue will be adversely affected.

Our ability to grow our business and generate advertising revenue depends on retaining and expanding our listener base and increasing listener hours. We must convince prospective listeners of the benefits of our service and existing listeners of the continuing value of our service. The more listener hours we stream, the more ad inventory we have to sell. Further, growth in our listener base increases the size of demographic pools targeted by advertisers, which improves our ability to deliver advertising in a manner that maximizes our advertising customers' return on investment and, ultimately, to demonstrate the effectiveness of our advertising solutions and justify a pricing structure that is profitable for us. If we fail to grow our listener base and listener hours, particularly in key demographics such as young adults, we will be unable to grow advertising revenue, and our business will be materially and adversely affected.

Our ability to increase the number of our listeners and listener hours will depend on effectively addressing a number of challenges. Some of these challenges include:

- providing listeners with a consistent high quality, user-friendly and personalized experience;
- successfully expanding our share of listening in cars;
- continuing to build and maintain availability of catalogs of music and comedy and other content that our listeners enjoy;
- continuing to innovate and keep pace with changes in technology and our competitors;
- maintaining and building our relationships with makers of consumer products such as mobile devices and other consumer electronic products to make our service available through their products;
- maintaining positive listener perception of our service while managing ad-load to optimize inventory utilization; and
- minimizing listener churn and attracting lapsed listeners back to the service.

In addition, we have historically relied heavily on the success of viral marketing to expand consumer awareness of our service. We recently began supplementing our viral marketing strategy with larger, more costly marketing campaigns, and this increase in marketing expenses could fail to achieve expected returns and therefore have an adverse effect on our results of operations. We cannot guarantee that we will be successful in maintaining or expanding our listener base and failure to do so would materially and adversely affect our business, operating results and financial condition.

Further, although we use our number of active users as a key indicator of our brand awareness and the growth of our business, the number of active users exceeds the number of unique individuals who register for, or actively use, our service. We define active users as the number of distinct users that have requested audio from our servers within the trailing 30 days from the end of each calendar month. To establish an account, a person does not need to provide personally unique information. For this reason, a person may have multiple accounts. If the number of actual listeners does not result in an increase in listener

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hours, then our business may not grow as quickly as we expect, which may harm our business, operating results and financial condition.

If we fail to accurately predict and play music, comedy or other content that our listeners enjoy, we may fail to retain existing and attract new listeners.

We believe that a key differentiating factor between the Pandora service and other music content providers is our ability to predict music that our listeners will enjoy. Our personalized playlist generating system, based on the Music Genome Project and our proprietary algorithms, is designed to enable us to predict listener music preferences and select music content tailored to our listeners' individual music tastes. We have invested, and will continue to invest, significant resources in refining these technologies; however, we cannot guarantee that such investments will produce the intended results. The effectiveness of our personalized playlist generating system depends in part on our ability to gather and effectively analyze large amounts of listener data and listener feedback and we have no assurance that we will continue to be successful in enticing listeners to give a thumbs-up or thumbs-down to enough songs for our database to effectively predict and select new and existing songs. In addition, our ability to offer listeners songs that they have not previously heard and impart a sense of discovery depends on our ability to acquire and appropriately categorize additional tracks that will appeal to our listeners' diverse and changing tastes. While we have over 1,000,000 analyzed songs in our library, we must continuously identify and analyze additional tracks that our listeners will enjoy and we may not effectively do so. Further, many of our competitors currently have larger catalogs than we offer and they may be more effective in providing their listeners with a more appealing listener experience.

We also provide comedy content on Pandora, and for that content we also try to predict what our listeners will enjoy, using technology similar to the technology that we use to generate personalized playlists for music. The risks that apply to predicting our listeners' musical tastes apply to comedy and other content to an even greater extent, particularly as we lack experience with content other than music, do not yet have as large a data set on listener preferences for comedy and other content, and have a much smaller catalog as compared to music. Our ability to predict and select music, comedy and other content that our listeners enjoy is critical to the perceived value of our service among listeners and failure to make accurate predictions would adversely affect our ability to attract and retain listeners, increase listener hours and sell advertising.

We face, and will continue to face, competition with other content providers for listener hours and advertising spending.

We compete for the time and attention of our listeners with other content providers on the basis of a number of factors, including quality of experience, relevance, acceptance and perception of content quality, ease of use, price, accessibility, perception of ad load, brand awareness and reputation. Such competition affects the amount of quality advertising inventory available which we can offer to advertisers on our ad-supported service.

Many of our competitors may leverage their existing infrastructure, brand recognition and content collections to augment their services by offering competing internet radio features within a more comprehensive digital music streaming service. We face increasing competition for listeners from a growing variety of music services that deliver music content through mobile phones and other wireless devices. Our direct competitors in the internet radio segment include iHeart Radio, LastFM and other companies in the traditional broadcast and internet radio market. We also directly compete with the non-interactive, internet radio offerings from providers such as Spotify, Apple Music, Tidal, Google Play Music and Slacker, and we compete more broadly with on-demand music streaming services such as Spotify, Apple Music, YouTube, SoundCloud, Google Play Music, Amazon Prime, Rhapsody, and Deezer.

Our competitors also include terrestrial radio and satellite radio services, many of which also broadcast on the internet. Terrestrial radio providers offer their content for free, are well established and accessible to listeners and offer content,

such as news, sports, traffic, weather and talk that we currently do not offer. In addition, many terrestrial radio stations have begun broadcasting digital signals, which provide high-quality audio transmission. Satellite radio providers may offer extensive and oftentimes exclusive news, comedy, sports and talk content, national signal coverage and long-established automobile integration. In addition, terrestrial radio pays no content acquisition costs for its use of sound recordings and satellite radio pays a much lower percentage of revenue, 10.5% in 2016 and 11% in 2017, than internet radio providers for use of sound recordings, giving broadcast and satellite radio companies a significant cost advantage. We also compete directly with other emerging non-interactive internet radio providers, which may offer more extensive content libraries than we offer and some of which may be accessed internationally.

We compete for the time and attention of our listeners with providers of other forms of in-home and mobile entertainment. To the extent existing or potential listeners choose to watch cable television, stream video from on-demand services or play interactive video games on their home-entertainment system, computer or mobile phone rather than listen to the Pandora service, these content services pose a competitive threat. We also compete with many other forms of media and

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services for the time and attention of our listeners, including non-music competitors such as Facebook, Google, Snap, MSN, Yahoo!, Verizon, ABC, CBS, FOX, NBC, The New York Times and the Wall Street Journal, among others.

We believe that companies with a combination of financial resources, technical expertise and digital media experience also pose a significant threat. For example, Apple, Amazon and Google have recently launched competing services. These and other competitors may devote greater resources than we have available, have a more accelerated time frame for deployment, be willing to absorb significant costs to acquire customers through free trials or other initiatives, operate their music services at a loss in order to drive their other profitable businesses, and leverage their existing user base and proprietary technologies to provide products and services that our listeners and advertisers may view as superior or more cost effective. Our current and future competitors may have more well established brand recognition, more established relationships with music content companies and consumer product manufacturers, greater financial, technical and other resources, more sophisticated technologies or more experience in the markets, both domestic and international, in which we compete.

We also compete for listeners on the basis of the presence and visibility of our app, which is distributed via the largest app stores operated by Apple, Google and Amazon. Such distribution is subject to an application developer license agreement in each case. We face significant competition for listeners from these companies, who are also promoting their own digital music and content online through their app stores. Search engines and app stores rank responses to search queries based on the popularity of a website or mobile application, as well as other factors that are outside of our control. Additionally, app stores often offer users the ability to browse applications by various criteria, such as the number of downloads in a given time period, the length of time since a mobile app was released or updated, or the category in which the application is placed. The websites and mobile applications of our competitors may rank higher than our website and our Pandora app, and our app may be difficult to locate in app stores, which could draw potential listeners away from our service and toward those of our competitors. In addition, our competitors' products may be pre-loaded or integrated into consumer electronics products or automobiles, creating an initial visibility advantage. If we are unable to compete successfully for listeners against other digital media providers by maintaining and increasing our presence and visibility online, in app stores and in consumer electronics products and automobiles, our listener hours may fail to increase as expected or decline and our business may suffer. Additionally, should any of these parties reject our app from their app store or amend the terms of their license in such a way that inhibits our ability to distribute our apps, or negatively affects our economics in such distribution, our ability to increase listener hours and sell advertising would be adversely affected, which would reduce our revenue and harm our operating results.

To compete effectively, we must continue to invest significant resources in the development of our service to enhance the user experience of our listeners.

Additionally, in order to compete successfully for advertisers against new and existing competitors, we must continue to invest resources in developing and diversifying our advertisement platform, harnessing listener data and ultimately proving the effectiveness and relevance of our advertising products. There can be no assurance that we will be able to compete successfully for listeners and advertisers in the future against existing or new competitors, and failure to do so could result in loss of existing or potential listeners, loss of current or potential advertisers or a reduced share of our advertisers' overall marketing budget, which could adversely affect our pricing and margins, lower our revenue, increase our research and development and marketing expenses, diminish our brand strength and prevent us from achieving or maintaining profitability.

If we are not successful in operating and growing our recently acquired Ticketfly business, we will not realize the benefits anticipated when we acquired the business.

We acquired Ticketfly in October 2015, which was our first major acquisition and represents an entirely new line of business for us. Ticketfly's business is highly sensitive to rapidly changing public tastes and is dependent on the availability of popular artists and events. Ticketfly's revenue is derived from ticketing services under client contracts with venues and event promoters across North America, which consist primarily of per ticket convenience fees, credit card processing and shipping fees as well as per order "order processing" fees. If Ticketfly's clients fail to anticipate the tastes of consumers and to offer events that appeal to them, the business may not grow or succeed. We cannot provide assurances that Ticketfly will be able to maintain or expand arrangements with clients and other third parties on acceptable terms, if at all. Furthermore, a decline in attendance at or reduction in the number of live entertainment, sporting and leisure events for any reason may have an adverse effect on our Ticketfly business. If we fail to successfully operate and grow our Ticketfly business, we will not realize the benefits anticipated when we acquired the business, and any such failure could result in substantial impairment charges.

Our ability to expand our services into countries outside the United States is dependent on our ability to obtain necessary licenses from content owners, which we currently do not have.

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We currently operate the Pandora service in the United States, Australia and New Zealand. In Australia and New Zealand, we have licenses from copyright owners to provide our ad-supported and subscription radio services without the additional interactive features that we introduced in the U.S. on September 15, 2016, and we do not yet have the necessary licenses from copyright owners to launch an on-demand music service in Australia or New Zealand. Therefore, in order to introduce interactive features into our existing services in Australia and New Zealand, or to launch an on-demand music service there, or to launch any interactive or non-interactive music streaming service anywhere else in the world, we will need to negotiate and execute license agreements with the necessary rights holders. We may not be able to obtain all of the necessary rights to expand our service offerings on commercially viable terms, or at all. If we are not able to obtain the necessary licenses on commercially viable terms, then we will not be able to proceed with our international service expansion plans, and our growth could suffer materially. This could adversely affect our business, financial condition and results of operations.

We face many risks associated with our long-term plan to further expand our operations outside of the United States, including difficulties obtaining rights to music and other content on favorable terms.

Expanding our operations into international markets is an element of our long-term strategy. For example, in June 2012 we began providing our service in New Zealand, Australia and their associated territories. However, offering our service outside of the United States involves numerous risks and challenges. Most importantly, while United States copyright law provides a statutory licensing regime for the public performance of sound recordings to listeners within the United States, there is no equivalent statutory licensing regime available outside of the United States, and direct licenses from rights organizations and other content owners may not be available on commercially viable terms. Addressing licensing structure and issues with the rate for content acquisition costs in the United States required us to make very substantial investments of time, capital and other resources, and our business could have failed if such investments had not succeeded. Addressing these issues in foreign jurisdictions may require a commensurate investment by us, and there can be no assurance that we would succeed or achieve any return on this investment.

In addition, international expansion exposes us to other risks such as:

- the need to modify our technology and market our service in non-English speaking countries;
- the need to localize our service to foreign customers' preferences and customs;
- the need to conform our operations, and our marketing and advertising efforts, with the laws and regulations of foreign jurisdictions, including, but not limited to, the use of any personal information about our listeners;
- the need to amend existing agreements and to enter into new agreements with automakers, automotive suppliers, consumer electronics manufacturers with products that integrate our service, and others in order to provide that service in foreign countries;
- difficulties in managing operations due to language barriers, distance, staffing, cultural differences and business infrastructure constraints and domestic laws regulating corporations that operate internationally;
- our lack of experience in marketing, and encouraging viral marketing growth without incurring significant marketing expenses, in foreign countries;
- application of foreign laws and regulations to us;
- fluctuations in currency exchange rates;

• reduced or ineffective protection of our intellectual property rights in some countries; and

• potential adverse tax consequences associated with foreign operations and revenue.

Furthermore, in most international markets, we would not be the first entrant, and our competitors may be better positioned than we are to succeed. In addition, in jurisdictions where copyright protection has been insufficient to protect against widespread music piracy, achieving market acceptance of our service may prove difficult as we would need to convince listeners to stream our service when they could otherwise download the same music for free. As a result of these obstacles, we may find it impossible or prohibitively expensive to enter or sustain our presence in foreign markets, or entry into foreign markets could be delayed, which could hinder our ability to grow our business.

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Expansion of our operations into content beyond pre-recorded music, including comedy, live events and podcasts, subjects us to additional business, legal, financial and competitive risks.

Expansion of our operations into delivery of content beyond pre-recorded music involves numerous risks and challenges, including increased capital requirements, new competitors and the need to develop new strategic relationships. Growth into these new areas may require changes to our existing business model and cost structure, modifications to our infrastructure and exposure to new regulatory and legal risks, including infringement liability, any of which may require additional expertise that we currently do not have. There is no guarantee that we will be able to generate sufficient revenue from advertising sales associated with comedy, live events, podcasts or other non-prerecorded-music content to offset the costs of maintaining these stations or the content acquisition costs paid for such stations. Further, we have established a reputation as a music format internet radio provider and our ability to gain acceptance and listenership for comedy, live events, podcasts or other non-music content stations, and thus our ability to attract advertisers on these stations, is not certain. Failure to obtain or retain rights to comedy, live events, podcasts or other non-music content on acceptable terms, or at all, to successfully monetize and generate revenues from such content, or to effectively manage the numerous risks and challenges associated with such expansion could adversely affect our business and financial condition.

We have acquired, and may continue to acquire, other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results.

We have recently acquired and may in the future seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our service, enhance our technical capabilities or otherwise offer growth opportunities. For example, in 2015, we acquired Next Big Sound, Ticketfly and certain assets of Rdio. These acquisitions, and our pursuit of future potential acquisitions, may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. In addition, we have limited experience acquiring and integrating other businesses. We may be unsuccessful in integrating our recently acquired businesses or any additional business we may acquire in the future. For instance, our acquisition in December 2015 of certain assets of Rdio in order to facilitate our intention to launch an on-demand service, has required and will continue to require time and resources. There is no assurance that we will be able to successfully launch an on-demand service, if at all, and if we fail to launch an on-demand service or a new service is unsuccessful, we will not realize the benefits of this acquisition.

We also may not achieve the anticipated benefits from any acquired business due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- regulatory uncertainties;
- harm to our existing business relationships with business partners and advertisers as a result of the acquisition;
- harm to our brand and reputation;
- the potential loss of key employees;

- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer.

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Our ability to increase the number of our listeners will depend in part on our ability to establish and maintain relationships with automakers, automotive suppliers and consumer electronics manufacturers with products that integrate our service.

A key element of our strategy to expand the reach of our service and increase the number of our listeners and listener hours is to establish and maintain relationships with automakers, automotive suppliers and consumer electronics manufacturers that integrate our service into and with their products. Working with certain third-party distribution partners, we currently offer listeners the ability to access our service through a variety of consumer electronics products used in the home and devices connected to or installed in automobiles. We intend to broaden our ability to reach additional listeners, and increase current listener hours, through other platforms and partners over time, including through direct integration into connected cars. However, product design cycles in automotive manufacturing are lengthy and the useful lives of automobiles in service is long, and we may not be able to achieve our goals in our desired timeframe, which could adversely impact our ability to grow our business.

Our existing agreements with partners in the automobile and consumer electronics industries generally do not obligate those partners to offer our service in their products. In addition, some automobile manufacturers or their supplier partners may terminate their agreements with us for convenience. Our business could be adversely affected if our automobile partners and consumer electronics partners do not continue to provide access to our service or are unwilling to do so on terms acceptable to us. If we are forced to amend the business terms of our distribution agreements as a result of competitive pressure, our ability to maintain and expand the reach of our service and increase listener hours would be adversely affected, which would reduce our revenue and harm our operating results.

We rely upon an agreement with DoubleClick, which is owned by Google, for delivering and monitoring most of our ads. Failure to renew the agreement on favorable terms, or termination of the agreement, could adversely affect our business.

We use DoubleClick's ad-serving platform to deliver and monitor most of the ads for our ad-supported service. There can be no assurance that our agreement with DoubleClick, which is owned by Google, will be extended or renewed upon expiration, that we will be able to extend or renew our agreement with DoubleClick on terms and conditions favorable to us or that we could identify another alternative vendor to take its place. Our agreement with DoubleClick also allows DoubleClick to terminate our relationship before the expiration of the agreement on the occurrence of certain events, including material breach of the agreement by us, and to suspend provision of the services if DoubleClick determines that our use of its service violates certain security, technology or content standards.

We rely on third parties to provide software and related services necessary for the operation of our business.

We incorporate and include third-party software into and with our apps and service offerings and expect to continue to do so. The operation of our apps and service offerings could be impaired if errors occur in the third-party software that we use. It may be more difficult for us to correct any defects in third-party software because the development and maintenance of the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that any third-party licensors will continue to make their software available to us on acceptable terms, to invest the appropriate levels of resources in their software to maintain and enhance its capabilities, or to remain in business. Any impairment in our relationship with these third-party licensors could harm our ability to maintain and expand the reach of our service, increase listener hours and sell advertising, each of which could harm our operating results, cash flow and financial condition.

Digital music streaming is an evolving industry, which makes it difficult to evaluate our near- and long-term business prospects.

Digital music streaming continues to develop as an industry and our near- and long-term business prospects are difficult to evaluate. The marketplace for digital music streaming is subject to significant challenges and new competitors. As a result, the future revenue, income and growth potential of our business is uncertain. Investors should consider our business and prospects in light of the risks and difficulties we encounter in this evolving business, which risks and difficulties include, among others, risks related to:

- our evolving business model and new licensing models for content as well as the potential need for additional types of content;

- our ability to develop additional products and services, or products and services in adjacent markets, in order to maintain revenue growth, and the resource requirements of doing so;

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our ability to retain current levels of active listeners, build our listener base and increase listener hours;

our ability to effectively monetize listener hours by growing our sales of advertising inventory created from developing new and compelling ad product solutions that successfully deliver advertisers' messages across the range of our delivery platforms while maintaining our listener experience;

our ability to attract new advertisers, retain existing advertisers and prove to advertisers that our advertising platform is effective enough to justify a pricing structure that is profitable for us;

our ability to maintain relationships with platform providers, makers of mobile devices, consumer electronic products and automobiles;

our ability to continue to secure the rights to music that attracts listeners to the service on fair and reasonable economic terms.

Failure to successfully address these risks and difficulties and other challenges associated with operating in an evolving marketplace could materially and adversely affect our business, financial condition and results of operations.

We have incurred significant operating losses in the past and may not be able to generate sufficient revenue to be profitable.

Since our inception in 2000, we have incurred significant net operating losses and, as of December 31, 2016, we had an accumulated deficit of \$709.6 million. A key element of our strategy is to increase the number of listeners and listener hours to increase our industry penetration, including the number of listener hours on mobile and other connected devices. However, as our number of listener hours increases, our content acquisition costs also increase. In addition, we have adopted a strategy to invest in our operations in advance of, and to drive, future revenue growth. This strategy includes recently completed acquisitions and other initiatives. As a result of these trends, we have not in the past generated, and may not in the future generate, sufficient revenue from the sale of advertising and subscriptions, or new revenue sources, to offset our expenses. In addition, we plan to continue to invest heavily in our operations to support anticipated future growth. As a result of these factors, we expect to incur annual net losses in the near term.

Our revenue has increased rapidly in recent periods; however, we do not expect to sustain our high revenue growth rates in the future as a result of a variety of factors, including increased competition and the maturation of our business, and we cannot guarantee that our revenue will continue to grow or will not decline. Investors should not consider our historical revenue growth or operating expenses as indicative of our future performance. If revenue growth is lower than our expectations, or our operating expenses exceed our expectations, our financial performance will be adversely affected. Further, if our future growth and operating performance fail to meet investor or analyst expectations, it could have a material adverse effect on our stock price.

In addition, in our efforts to increase revenue as the number of listener hours has grown, we have expanded and expect to continue to expand our sales force. If our hiring of additional sales personnel does not result in a sufficient increase in revenue, the cost of this additional headcount will not be offset, which would harm our operating results and financial condition.

If we fail to effectively manage our growth, our business and operating results may suffer.

Our rapid growth has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure. In order to attain and maintain profitability, we will need to recruit, integrate and retain

skilled and experienced sales personnel who can demonstrate our value proposition to advertisers and increase the monetization of listener hours, particularly on mobile devices, by developing relationships with both national and local advertisers to convince them to migrate advertising spending to online and mobile digital advertising markets and utilize our advertising product solutions. Continued growth could also strain our ability to maintain reliable service levels for our listeners, effectively monetize our listener hours, develop and improve our operational, financial and management controls and enhance our reporting systems and procedures. If our systems do not evolve to meet the increased demands placed on us by an increasing number of advertisers, we may also be unable to meet our obligations under advertising agreements with respect to the timing of our delivery of advertising or other performance obligations. As our operations grow in size, scope and complexity, we will need to improve and upgrade our systems and infrastructure, which will require significant expenditures and allocation of valuable management resources. If we fail to maintain the necessary level of discipline and efficiency and allocate limited resources effectively in our organization as it grows, our business, operating results and financial condition may suffer.

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Our business and prospects depend on the strength of our brands and failure to maintain and enhance our brands would harm our ability to expand our base of listeners, advertisers and other partners.

Maintaining and enhancing the "Pandora", "Ticketfly" and "Next Big Sound" brands is critical to expanding our base of listeners, advertisers, venue partners, concertgoers, content owners and other partners. Maintaining and enhancing our brands will depend largely on our ability to continue to develop and provide an innovative and high quality experience for our listeners and concertgoers and attract advertisers, content owners, venue partners and automobile, mobile device and other consumer electronic product manufacturers to work with us, which we may not do successfully.

Our brands may be impaired by a number of other factors, including service outages, data privacy and security issues, listener perception of ad load and exploitation of our trademarks by others without permission. In addition, if our partners fail to maintain high standards for products that integrate our service, or if we partner with manufacturers of products that our listeners reject, the strength of our brand could be adversely affected.

Assertions by third parties of violations under state law with respect to the public performance and reproduction of pre-1972 sound recordings could result in significant costs and substantially harm our business and operating results.

Federal copyright protection does not apply to sound recordings created prior to February 15, 1972 ("pre-1972 sound recordings"). The protection of such recordings is instead governed by a patchwork of state statutory and common laws. Copyright owners of pre-1972 sound recordings have commenced litigation against us in New York, California, Illinois, and New Jersey alleging violations of state statutory and common laws arising from the reproduction and public performance of pre-1972 sound recordings. Despite settling one such suit with the major record labels in October 2015, and entering into direct license agreements for recorded music with major and independent labels, distributors and publishers during the first nine months of 2016 that also permit us to stream certain pre-1972 sound recordings, we still face a number of class-action suits brought by various plaintiffs who seek, among other things, restitution, disgorgement of profits, and punitive damages as well as injunctive relief prohibiting further violation of those copyright owners' alleged exclusive rights.

If we are found liable for the violation of the exclusive rights of any pre-1972 sound recording copyright owners, then we could be subject to liability, the amount of which could be significant. Similarly, any settlements of the remaining litigation could require substantial payments. If we are required to obtain licenses from individual sound recording copyright owners for the reproduction and public performance of pre-1972 sound recordings, then the time, effort and cost of securing such licenses directly from all owners of sound recordings used on our service could be significant and could harm our business and operating results. If we are required to obtain licenses for pre-1972 sound recordings to avoid liability and are unable to secure such licenses, then we may have to remove pre-1972 sound recordings from our service, which could harm our ability to attract and retain users.

We could be adversely affected by regulatory restrictions on the use of mobile and other electronic devices in motor vehicles and legal claims arising from use of such devices while driving.

Regulatory and consumer agencies have increasingly focused on distraction to drivers that may be associated with use of mobile and other devices in motor vehicles. In 2010, the U.S. Department of Transportation identified driver distraction as a top priority, and in April 2013, the National Highway Traffic Safety Administration (the "NHTSA") released voluntary Phase 1 Driver Distraction Guidelines for visual-manual devices not related to the driving task that are integrated into motor vehicles. In March 2014, NHTSA held a public meeting soliciting comments related to its voluntary Phase 2 Driver Distraction Guidelines for portable and aftermarket devices that may be used in motor vehicles, but such guidelines have not yet been issued. If NHTSA or other agencies implemented regulatory

restrictions and took enforcement action related to how drivers and passengers in motor vehicles may engage with devices on which our service is broadcast, such restrictions or enforcement actions could inhibit our ability to increase listener hours and generate ad revenue, which would harm our operating results. In addition, concerns over driver distraction due to use of mobile and other electronic devices used to access our service in motor vehicles could result in product liability or personal injury litigation and negative publicity.

Federal, state and industry regulations as well as self-regulatory programs related to privacy and data security pose the threat of lawsuits and other liability, require us to expend significant resources for compliance, and may hinder our ability and our advertisers' ability to deliver certain types of advertising.

We collect and utilize demographic and other information from and about our listeners and artists as they interact with our service, including information which could fall under a definition of "personally identifiable information" under various state and federal laws. For example, to register for a Pandora account, our listeners self-report the following information: birth year, gender, zip code and e-mail address. Listeners must also provide their credit card or debit card numbers and other billing

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information if they choose to take advantage of additional service offerings, such as Pandora Plus or Ticketfly. We also may collect location information from listeners who have enabled this feature on their mobile or other devices, information listeners provide on their profile page or in using other community or social networking features that are part of our service, or information listeners provide when they participate in polls or contests or sign up to receive e-mail newsletters. Further, we and third parties use tracking technologies, including "cookies" and related technologies, to help us manage and track our listeners' interactions with our service and deliver relevant advertising. We also collect information from and track artists' activity on our Pandora Artist Marketing Platform. Third parties may, either without our knowledge or consent, or in violation of contractual prohibitions, obtain, transmit or utilize our listeners' or artists' personally identifiable information, or data associated with particular users, devices or artists.

Various federal and state laws and regulations, as well as the laws of foreign jurisdictions in which we may choose to operate, govern the collection, use, retention, sharing and security of the data we receive from and about our listeners. Privacy groups and government authorities have increasingly scrutinized the ways in which companies link personal identities and data associated with particular users or devices with data collected through the internet, and we expect such scrutiny to continue to increase. Alleged violations of laws and regulations relating to privacy and data security, and any relevant claims, may expose us to potential liability and may require us to expend significant resources in responding to and defending such allegations and claims. Claims or allegations that we have violated laws and regulations relating to privacy and data security have resulted and could in the future result in negative publicity and a loss of confidence in us by our listeners and our advertisers.

Existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations, and various federal and state legislative and regulatory bodies, as well as foreign legislative and regulatory bodies, may expand current or enact new laws regarding privacy and data security-related matters. We may find it necessary or desirable to join self-regulatory bodies or other privacy-related organizations that require compliance with their rules pertaining to privacy and data security. We are also bound by our public-facing privacy statement, which sets forth the ways in which we collect, use and share information. We also may be bound by contractual obligations that limit our ability to collect, use, disclose and leverage listener data and to derive economic value from it. New laws, amendments to or re-interpretations of existing laws, rules of self-regulatory bodies, industry standards and contractual obligations, as well as changes in our listeners' expectations and demands regarding privacy and data security, may limit our ability to collect, use and disclose, and to leverage and derive economic value from listener data. We may also be required to expend significant resources to adapt to these changes and to develop new ways to deliver relevant advertising or otherwise provide value to our advertisers. In particular, government regulators have proposed "do not track" mechanisms, and requirements that users affirmatively "opt-in" to certain types of data collection and use that, if enacted into law or adopted by self-regulatory bodies or as part of industry standards, could significantly hinder our ability to collect and use data relating to listeners. Restrictions on our ability to collect, access and harness listener data, or to use or disclose listener data or any profiles that we develop using such data, could in turn limit our ability to stream personalized music content to our listeners and offer targeted advertising opportunities to our advertising customers, each of which are critical to the success of our business.

We have incurred, and will continue to incur, expenses to comply with privacy and security standards and protocols imposed by law, regulation, self-regulatory bodies, industry standards and contractual obligations. Increased regulation of data utilization and distribution practices, including self-regulation and industry standards, could increase our cost of operation, limit our ability to grow our operations or otherwise adversely affect our business.

Government regulation of the internet is evolving, and unfavorable developments could have an adverse effect on our operating results.

We are subject to general business regulations and laws, as well as regulations and laws specific to the internet. Such laws and regulations cover sales and other taxes and withholding of taxes, user privacy, data collection and protection,

copyrights, electronic contracts, sales procedures, automatic subscription renewals, credit card processing procedures, consumer protections, broadband internet access and content restrictions. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing issues such as privacy, taxation and consumer protection apply to the internet. Moreover, as internet commerce continues to evolve, increasing regulation by federal, state and foreign agencies becomes more likely. The adoption of any laws or regulations that adversely affect the popularity or growth in use of the internet, including laws limiting network neutrality, could decrease listener demand for our service offerings and increase our cost of doing business. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also hinder our operational flexibility, raise compliance costs and result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our operating results.

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

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Our revenue and operating results could vary significantly from quarter to quarter and year to year due to a variety of factors, many of which are outside our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. In addition to other risk factors discussed in this "Risk Factors" section, factors that may contribute to the variability of our quarterly and annual results include:

• costs associated with pursuing licenses or other commercial arrangements;

• costs associated with defending any litigation, including intellectual property infringement litigation, and any associated judgments or settlements;

• our ability to pursue, and the timing of, entry into new geographic or content markets or other strategic initiatives and, if pursued, our management of these initiatives;

• the impact of general economic and competitive conditions on our revenue and expenses;
and

• changes in government regulation affecting our business.

Seasonal variations in listener and advertising behavior may also cause fluctuations in our financial results. We expect to experience some effects of seasonal trends in listener behavior due to higher advertising sales during the fourth quarter of each year due to greater advertiser demand during the holiday season and lower advertising sales in the first quarter of the following year. 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. In addition, we expect to experience increased usage during the fourth quarter of each year due to the holiday season, and in the first quarter of each year due to increased use of media-streaming devices received as gifts during the holiday season.

If we are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of year-end, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

While we have determined that our internal control over financial reporting was effective as of December 31, 2016, as indicated in "Controls and Procedures Management's Report on Internal Control over Financial Reporting", we must continue to monitor and assess our internal control over financial reporting. If our management identifies one or more material weaknesses in our internal control over financial reporting and such weakness remains uncorrected at year-end, we will be unable to assert that such internal control is effective at year-end. If we are unable to assert that our internal control over financial reporting is effective at year-end, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls or concludes that we have a material weakness in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on our business and the price of our common stock.

We may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances. If capital is not available to us, our business, operating results and

financial condition may be harmed.

We may require additional capital to operate or expand our business. In addition, some of our current or future strategic initiatives, or international markets, may require substantial additional capital resources before they begin to generate revenue. Additional funds may not be available when we need them, on terms that are acceptable to us, or at all. For example, our current credit facility contains restrictive covenants relating to our capital raising activities and other financial and operational matters, and any debt financing secured by us in the future could involve further restrictive covenants, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, volatility in the credit markets may have an adverse effect on our ability to obtain debt financing. If we do not have funds available to enhance our solutions, maintain the competitiveness of our technology and pursue business opportunities, we may not be able to service our existing

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listeners, acquire new listeners or attract or retain advertising customers, each of which could inhibit the implementation of our business plan and materially harm our operating results.

Failure to protect our intellectual property could substantially harm our business and operating results.

The success of our business depends, in part, on our ability to protect and enforce our trade secrets, trademarks, copyrights and patents and all of our other intellectual property rights, including our intellectual property rights underlying the Pandora service. To establish and protect those proprietary rights, we rely on a combination of patents, patent applications, trademarks, copyrights, trade secrets (including know-how), license agreements, information security procedures, non-disclosure agreements with third parties, employee disclosure and invention assignment agreements, and other contractual obligations. These afford only limited protection. Despite our efforts to protect our intellectual property rights, unauthorized parties may copy or attempt to copy aspects of our technology. Moreover, policing our intellectual property rights is difficult, costly and may not always be effective.

We have filed, and may in the future file, patent applications and from time to time we have purchased patents and patent applications from third parties. It is possible, however, that these innovations may not be protectable. In addition, given the cost, effort, risks and downside of obtaining patent protection, including the requirement to ultimately disclose the invention to the public, we may choose not to seek patent protection for certain innovations. However, such patent protection could later prove to be important to our business. Furthermore, there is always the possibility that our patent applications may not issue as granted patents, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable. Moreover, in certain circumstances there are additional risks, including:

- present or future patents or other intellectual property rights could lapse or be invalidated, circumvented, challenged or abandoned;

- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes may be limited by our relationships with third parties;

- our pending or future patent applications may not have coverage sufficient to provide the desired competitive advantage; and

- our intellectual property rights may not be enforced in jurisdictions where competition may be intense or where legal protection may be weak.

We have registered "Pandora," "Music Genome Project", "Next Big Sound", "Ticketfly" and other marks as trademarks in the United States and other countries. Nevertheless, competitors may adopt service names similar to ours, or purchase confusingly similar terms as keywords in internet search engine advertising programs, thereby impeding our ability to build brand identity and possibly leading to confusion among our listeners or advertising customers. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the term Pandora or our other trademarks. Any claims or customer confusion related to our trademarks could damage our reputation and brand and substantially harm our business and operating results.

We currently own the www.pandora.com and www.ticketfly.com internet domain names and various other domain names related to our business. The regulation of domain names in the United States and in foreign countries is subject to change. Regulatory bodies continue to establish additional top-level domains, appoint additional domain name registrars and modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize our brand names in the United States or other countries in which we may

conduct business in the future. If we lose or fail to acquire the right to use any domain name relevant to our current or future business in the United States or other countries, we may incur significant additional expense.

In order to protect our trade secrets and other confidential information, we rely in part on confidentiality agreements with our employees, consultants and third parties with whom we have relationships. These agreements may not effectively prevent disclosure of trade secrets and other confidential information and may not provide an adequate remedy in the event of misappropriation of trade secrets or any unauthorized disclosure of trade secrets and other confidential information. In addition, others may independently discover the same subject matter as that covered by our trade secrets and confidential information, and in some such cases we might not be able to assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our trade secret rights and related confidentiality and nondisclosure provisions, and failure to obtain or maintain trade secret protection, or our competitors' independent

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development of technology similar to ours for which we are unable to rely on other forms of intellectual property protection such as patents, could adversely affect our competitive business position.

Litigation or proceedings before the U.S. Patent and Trademark Office or other governmental authorities and administrative bodies in the United States and abroad may be necessary in the future to enforce our intellectual property rights, to protect our patent rights, trademarks, trade secrets and domain names and to determine the validity and scope of the proprietary rights of others. Our efforts to enforce or protect our proprietary rights may be ineffective and could result in substantial costs and diversion of resources and management time, each of which could substantially harm our operating results.

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and operating results.

Internet, technology and media companies are frequently subject to litigation based on allegations of infringement, misappropriation or other violations of others' intellectual property rights. Some internet, technology and media companies, including some of our competitors, own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. In addition, we encourage third parties to submit content for our catalog and we cannot be assured that artist representations made in connection with such submissions accurately reflect the legal rights of the submitted content. Third parties have asserted, and may in the future assert, that we have infringed, misappropriated or otherwise violated their intellectual property rights. In addition, various federal and state laws and regulations govern the intellectual property and related rights associated with sound recordings and musical works. Existing laws and regulations are evolving and subject to different interpretations, and various federal and state legislative or regulatory bodies may expand current or enact new laws or regulations. We cannot guarantee that we are not infringing or violating any third-party intellectual property rights.

We cannot predict whether assertions of third-party intellectual property rights or any infringement or misappropriation claims arising from such assertions will substantially harm our business and operating results. When we are forced to defend against any infringement or misappropriation claims, we may be required to expend significant time and financial resources on the defense of such claims, even if without merit, settled out of court, or adjudicated in our favor. Furthermore, an adverse outcome of a dispute may require us to: pay damages (potentially including treble damages and attorneys' fees if we are found to have willfully infringed a party's intellectual property); cease making, licensing or using products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our services to avoid infringement; enter into potentially unfavorable content acquisition or license agreements in order to obtain the right to use necessary technologies, content or materials; or to indemnify our partners and other third parties. We do not carry broadly applicable patent liability insurance and lawsuits regarding patent rights, regardless of their success, can be expensive to resolve and can divert the time and attention of our management and technical personnel.

Some of our services and technologies may use "open source" software, which may restrict how we use or distribute our service or require that we release the source code of certain services subject to those licenses.

Some of our services and technologies may incorporate software licensed under so-called "open source" licenses. Such open source licenses often require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. Few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. We rely on multiple employee and non-employee software programmers to design our proprietary technologies, and since we may not be able to exercise complete control over the development efforts of all such programmers we cannot be certain that they have not incorporated open source software into our products and services without our knowledge, or that they will not do so in the future. In the event

that portions of our proprietary technology are determined to be subject to an open source license, we may be required to publicly release the affected portions of our source code, be forced to re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce the value of our services and technologies and materially and adversely affect our ability to sustain and grow our business.

Interruptions or delays in service arising from our own systems or from our third-party vendors could impair the delivery of our service and harm our business.

We rely on systems housed at our own premises and at those of third-party vendors, including network service providers and data center facilities, to enable listeners to stream our content in a dependable and efficient manner. We have experienced and expect to continue to experience periodic service interruptions and delays involving our own systems and those of our third-party vendors. In the event of a service outage at our main site, we maintain a backup site that can function in read-only

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capacity. We do not currently maintain live fail-over capability that would allow us to instantaneously switch our streaming operations from one facility to another in the event of a service outage. In the event of an extended service outage at our main site, we do maintain and test fail-over capabilities that should allow us to switch our live streaming operations from one facility to another. Both our own facilities and those of our third-party vendors are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They also are subject to break-ins, hacking, denial of service attacks, sabotage, intentional acts of vandalism, terrorist acts, natural disasters, human error, the financial insolvency of our third-party vendors and other unanticipated problems or events. The occurrence of any of these events could result in interruptions in our service and to unauthorized access to, or alteration of, the content and data contained on our systems and that these third-party vendors store and deliver on our behalf.

We do not exercise complete control over our third-party vendors, which makes us vulnerable to any errors, interruptions, or delays in their operations. Any disruption in the services provided by these vendors could have significant adverse impacts on our business reputation, customer relations and operating results. Upon expiration or termination of any of our agreements with third-party vendors, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including service levels and cost, that are favorable to us, and a transition from one vendor to another vendor could subject us to operational delays and inefficiencies until the transition is complete.

If our security systems are breached, we may face civil liability and public perception of our security measures could be diminished, either of which would negatively affect our ability to attract and retain listeners and advertisers.

Techniques u