

ADT Corp
Form 10-K
November 12, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 26, 2014

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: 001-35502

The ADT Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware 45-4517261
(State or Other Jurisdiction (IRS Employer
of Incorporation or Organization) Identification Number)

1501 Yamato Road
Boca Raton, Florida 33431
(Address of Principal Executive Offices, including Zip Code)
(561) 988-3600
(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 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 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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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 Act). Yes No

The aggregate market value of common equity held by non-affiliates of the registrant as of March 28, 2014 was approximately \$5,238,565,262 (determined by subtracting from the number of shares outstanding on that date the number of shares held by affiliates of the registrant).

The number of outstanding shares of the registrant’s common stock, \$0.01 par value, was 174,527,463 as of November 5, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed within 120 days after the end of the registrant’s fiscal year covered by this Form 10-K in connection with the registrant’s 2015 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>10</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>26</u>
Item 2. <u>Properties</u>	<u>26</u>
Item 3. <u>Legal Proceedings</u>	<u>26</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>27</u>
<u>Part II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
Item 6. <u>Selected Financial Data</u>	<u>31</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>48</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>48</u>
Item 9A. <u>Controls and Procedures</u>	<u>48</u>
Item 9B. <u>Other Information</u>	<u>49</u>
<u>Part III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>50</u>
Item 11. <u>Executive Compensation</u>	<u>50</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>50</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>50</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>50</u>
<u>Part IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>51</u>
<u>Signatures</u>	<u>52</u>
<u>Index to Consolidated and Combined Financial Statements</u>	<u>53</u>

Table of Contents

PART I

Item 1. Business.

Overview

The ADT Corporation (hereinafter referred to as "we", the "Company" or "ADT") is a leading provider of monitored security, interactive home and business automation and related monitoring services in the United States and Canada. ADT has one of the most trusted and well-known brands in the monitored security industry today. We currently serve approximately 6.7 million residential and small business customers, making us the largest company of our kind in both the United States and Canada. We deliver an integrated customer experience by maintaining the industry's largest sales, installation and service field force as well as a robust monitoring network, all backed by the support of approximately 17,500 employees. Our broad and pioneering set of products and services, including interactive home and business solutions and home health services, meet a range of customer needs for today's active and increasingly mobile lifestyles. We believe we are well positioned to continue to lead the large and growing residential and expanded business security market, and that our demonstrated expertise and established footprint will help us to become a leader in the evolving market for home automation, home health monitoring, lifestyle and business productivity solutions.

We originated in 1874 as the American District Telegraph Company, a consortium of 57 telegraph operators. During the early part of the 20th century, we began offering fire and burglar alarm solutions. Over the years, we engaged in a variety of communications related activities and by 1987 had become one of the leading electronic security services providers. In 1997, we were acquired by Tyco International Ltd. ("Tyco" or "Parent"). In 2010, we acquired our largest competitor, Broadview Security. The Company was incorporated in Delaware in 2012 as a wholly-owned subsidiary of Tyco.

On September 19, 2011, Tyco announced that its board of directors had approved a plan to separate Tyco into three separate, publicly traded companies, identifying the ADT North American Residential Security Business of Tyco as one of those three companies. In conjunction with this plan, prior to September 28, 2012, Tyco transferred the equity interests of the entities that held all of the assets and liabilities of its residential and small business security business in the United States and Canada to ADT. Effective on September 28, 2012 (the "Distribution Date"), Tyco distributed all of its shares of ADT to Tyco's stockholders of record as of the close of business on September 17, 2012 (the "Separation"). On the Distribution Date, each of the stockholders of Tyco received one share of ADT common stock for every two shares of common stock of Tyco held on September 17, 2012.

We conduct business through our operating entities and report financial and operating information in one operating segment. For the year ended September 26, 2014, our revenue was \$3.4 billion and our operating income was \$659 million, and as of September 26, 2014, our total assets were \$10.5 billion. Information about revenues and long-lived assets by geographic area is presented in Note 12 to the Consolidated and Combined Financial Statements. Unless otherwise indicated, references in this Annual Report on Form 10-K to 2014, 2013 and 2012 are to our fiscal years ended September 26, 2014, September 27, 2013 and September 28, 2012, respectively.

In order to optimize the financial performance of our business, we focus on several key business drivers, including customer additions, costs to add a new customer, average revenue per customer, costs incurred to provide services to customers and customer tenure. We believe we have a proven track record of successfully balancing these key business drivers to optimize our returns. We use a structured customer acquisition process designed to generate new customers with attractive characteristics including, high adoption of automatic payment methods and strong credit scores, and interactive service contracts, which we believe results in long average customer tenure. We have made customer retention a top priority, and have partnered with J.D. Power and Associates, a global market research company, to collect and analyze feedback from new and existing customers, enabling us to focus our efforts on the aspects of customer experience that most strongly correlate to customer satisfaction and tenure.

The majority of the monitoring and home/business automation services and a large portion of the maintenance services we provide to our customers are governed by multi-year contracts with automatic renewal provisions. This provides us with significant recurring revenue, which for the year ended September 26, 2014, was approximately 92% of our revenue. We believe that the recurring nature of the majority of our revenue, combined with our large customer base and increasing average revenue per customer enables us to invest continuously in growing and optimizing our

business. This includes investments in technologies to further enhance the attractiveness of our solutions to current and potential customers, to continue development and training to enable our direct sales, installation, customer service and field service personnel to more effectively deliver exceptional service to our customers, to expand our dealer and partner network and to make continued enhancements to operations efficiency.

1

Table of Contents

Our business plan contemplates the achievement of sustained, profitable growth in the markets we serve today, as well as in adjacent markets, by executing against strategies that leverage our key assets and core competencies. Where appropriate, we plan to supplement our organic growth efforts with complementary acquisitions, leveraging our experience in effectively integrating acquired businesses.

We will continue to manage our business by optimizing the key business drivers noted above to maximize the value from and to our residential customers. We also believe there is significant opportunity to increase our share of monitored security and premises automation for an expanded business market, including small and mid-sized businesses. Therefore, we plan to grow our share of business customers by continuing to expand our business field sales force, supplemented with dedicated commercial sales professionals, and strengthen our business marketing support. We believe these actions will contribute to building a larger, more robust partner network and to assist in marketing additional value-added services, including ADT Pulse[®], our remote monitoring and home/business automation system.

Additionally, we believe monitored security and home/business automation services remain underpenetrated in North America. The number of U.S. households with monitored security systems continues to be significantly lower than those with other home services such as video and Internet. We plan to increase penetration of security and automation services through the development of new solutions and enhanced offerings and marketing that attract new customers to enter the market. In addition, through our efficient operating model and potentially lower technology costs over time, we believe we can significantly reduce the cost of basic installation and services, opening up the potential for a much larger portion of households and businesses to purchase monitored security and home automation services.

Brands and Services

Our key brands are ADT[®] and ADT Pulse[®]. We believe our brands are among the most respected, trusted and well-known brands in the monitored security industry. The strength of our brands is built upon our long-standing record of providing quality, reliable monitored security services. Due to the importance that customers place on reputation and trust when purchasing home and business security and automation services, we believe the strength of our brands is a key contributor to our success.

Our monitored security and home/business automation offerings involve the installation and monitoring of residential and business security and premises automation systems designed to detect intrusion, control access and react to movement, smoke, carbon monoxide, flooding, temperature and other environmental conditions and hazards, as well as to address personal emergencies, such as injuries, medical emergencies or incapacitation. We believe the breadth of our solutions allows us to meet a wide variety of customer needs. Our monitored security systems connect, upon the occurrence of a triggering event, to one of our state-of-the-art monitoring centers. Depending upon the type of service contract and the response specified by the customer, our monitoring center personnel respond to alarms by relaying appropriate information to local fire or police departments and notifying the customer or others on the customer's emergency contact list. Additional action may be taken by call center associates as needed, depending on the specific situation and recorded customer preferences.

Through the introduction of ADT Pulse[®] in 2010, we pioneered interactive technologies that allow our customers to remotely monitor and manage their home and business environments by adding automation capabilities to our monitored security systems. This is done in a way that maintains the separate network integrity and redundancy of a customer's life safety and security signals. Depending on the service plan that customers purchase and the type and level of product installation, they can remotely access information regarding the security of their home or business, arm and disarm their security system, adjust lighting or thermostat levels or view real-time video from cameras covering different areas of their premises, all via secure access from web-enabled devices (such as smart phones, laptops and tablet computers) and a customized web portal. ADT Pulse[®] also allows customers to create customized schedules and automation for managing lights, thermostats and appliances, and can be programmed to perform certain functions, such as recording and viewing live video and sending text messages, based on triggering events.

Additionally, in 2014 we introduced the industry's first voice authentication and control application for ADT Pulse[®], which we believe improves the user experience and engagement for our customers.

Many of our customers are driven to purchase monitored security as a result of a perceived or actual increase in crime or other life safety concerns in their neighborhood, such as a break-in or fire nearby. Other triggers that drive the

purchase of monitored security systems include moving to a new home, getting a new job, becoming a pet owner, getting married or divorced, having a baby and traveling. These life events tend to heighten interest in solutions which can enhance safety and security and provide customers with greater peace of mind. We believe many of our customers purchase security systems and monitoring services as a result of encouragement by their insurance carriers, who offer lower insurance premium rates if a security system is installed or may require that a system be installed as a condition of coverage.

Table of Contents

The majority of our customers use traditional land-line telephone service as the primary communication method for alarm signals from their sites. However, as the use of land-line telephone service has decreased, the ability to provide alternative communication methods from a customer's control panel to our central monitoring centers has become increasingly important. We currently offer, and recommend, a variety of alternate and back-up alarm transmission methods including cellular and broadband Internet. See Risk Factors "Shifts in our customers' choice of, or telecommunications providers' support for, telecommunications services and equipment could adversely impact our business and require significant capital expenditures."

In our health business, we provide monitoring center supported personal emergency response system ("PERS") products and services which leverage our safety monitoring infrastructure to provide customers with solutions that help sustain independent living, encourage better self-care activities and improve communication of critical health information. Our core PERS offering consists of a console unit and a wireless transmitter generally worn as a necklace or wristband by the customer. In the event of an emergency, the transmitter allows the customer to summon assistance via a two-way voice system that connects to our emergency response center that is staffed with dedicated PERS monitoring specialists. The monitoring team relays information to the appropriate local emergency responders, including Emergency Medical Services (EMS), police and fire departments as well as family members. We offer PERS units for customers with and without traditional telephone service. The majority of PERS units are shipped directly to the customer for easy set-up, however, if required trained field support is available upon request.

In addition to monitoring services, we provide customer service for routine maintenance and the installation of upgraded or additional equipment. Approximately 75% of our customer base is enrolled in a service plan which provides additional value to the customer and generates incremental recurring monthly revenue for ADT. Purchasers of our monitored security and home/business automation systems typically contract for ongoing system monitoring and maintenance at the time of initial equipment installation.

Most of the monitoring services and a large portion of the maintenance services that we provide to our customers are governed by multi-year contracts with automatic renewal provisions that provide us with recurring monthly revenue. Under our typical service agreement, the customer pays an upfront fee and is then obligated to make monthly payments for the remainder of the initial contract term. The standard agreement term is three years (two years in California), with automatic renewals for successive 30-day periods unless canceled by either party. If a customer cancels or is otherwise in default under the contract prior to the end of the initial contract term, we have the right under the contract to receive a termination charge from the customer in an amount equal to a percentage of all remaining monthly payments. Monitoring services are generally billed monthly or quarterly in advance. More than half of our customers pay us through automated payment methods, with a significantly higher percentage of new customers opting for these payment methods. We periodically adjust the standard monthly monitoring rate charged to new and existing customers.

Customers and Marketing

We serve approximately 6.7 million residential and small business customers throughout the United States and Canada. Our residential customers are typically owners of single-family homes, while our small business customers include, among others, retail businesses, food and beverage service providers, medical offices and clinics, mechanical and auto-body shops, professional service providers and small-scale commercial facilities. We manage our existing customer base to maximize customer lifetime value, which includes continually evaluating our product offerings, pricing and service strategies, managing our costs to provide service to customers, upgrading existing customers to ADT Pulse® and achieving long customer tenure. Our ability to increase average revenue per customer is derived from, and largely dependent on, our continued introduction of additional features and services that increase the value of our offerings to customers. Additionally, on September 29, 2014 the non-competition and non-solicitation provisions associated with the Separation expired and, as a result, we are no longer prohibited from competing in the commercial security market and therefore intend to expand into the mid-sized commercial market.

To support the growth of our customer base and to improve awareness of our brands, we market our monitored security and home/business automation systems and services through national television advertisements, Internet advertising, including national search engine marketing, email, online video, local search, direct mail and social media. We continually work to optimize our marketing spend through a lead modeling process whereby we flex and

shift our spending based on lead flow and measured marketing channel effectiveness. We utilize a variety of third-party referral providers who generate leads and sales referrals for both our direct sales team and our authorized dealers. Our partner lead generation methods include agreements with affinity organizations such as United Services Automobile Association (USAA), AARP and third-party referral companies.

We are constantly trialing new customer lead methods and channels in an effort to increase our customer base and drive greater penetration within homes and businesses without sacrificing customer quality. We continually explore opportunities to provide ADT-branded solutions through additional third parties, including telecommunications companies, broadband and cable companies, retailers, public and private utilities and software service providers.

Table of Contents

Sales and Distribution Channels

We utilize a network of complementary distribution channels that includes a mix of direct and indirect. In fiscal year 2014, we generated approximately 60% of our new customers through our internal sales force, including our phone and field teams, supported by our direct response marketing efforts. We generated our remaining new customers in fiscal year 2014 through our authorized dealer program, acquisitions and, to a small extent, through agreements with leading homebuilders and related partners. As opportunities arise, we may also engage in selective bulk account purchases, which typically involve the purchase of a set of customer accounts from other security service providers, sometimes including competitors.

Our national sales call centers (inbound and outbound) close sales from prospective customers generated through national marketing efforts and lead generation channel partners. Our telephone sales associates work to understand customer needs and then direct customers to the most suitable sales approach. We close a sale over the phone if appropriate, while balancing the opportunity for up-sales and customer education that occurs when a sales representative works with the customer in their home or business to fully understand their individual needs. When the sale is best handled in the customer's home or business, the sales center associate can schedule a field sales consultant appointment in real-time.

Our field sales force of approximately 3,800 sales consultants generates sales from residential and business customers through company generated leads and leads generated by our field sales force as well as customer referrals and other lead "self-generation" methods. Our field sales consultants undergo an in-depth screening process prior to hire. Each sales consultant completes comprehensive centralized training prior to conducting customer sales presentations and participates in ongoing training in support of new offerings and the use of our structured model sales call. We utilize a highly structured sales approach, which includes, in addition to the structured model sales call, daily monitoring of sales activity and effectiveness metrics and regular coaching by our sales management teams.

Our extensive dealer network, which consists of approximately 415 authorized dealers, including one authorized premier provider, operating across the United States and Canada, extends our reach by aligning us with select independent security sales and installation companies. These authorized dealers generally agree to exclusivity with us for security related services. We train and monitor each dealer to help ensure the dealer's financial stability, use of sound and ethical business practices and delivery of reliable and consistent high-quality sales and installation methods. Authorized dealers are required to adhere to the same high quality standards for sales and installation as company-owned field offices. We provide dealers with a full range of services designed to assist them in all aspects of their business.

Typically, our authorized dealers are contractually obligated to offer exclusively to us all qualified security services accounts they generate, but we are not obligated to accept these accounts. We pay our authorized dealers for the services they provide in generating qualified monitored accounts. In those instances when we reject an account, we generally still provide monitoring services for that account by means of a monitoring services agreement with the authorized dealer. Like our direct sales contracts, dealer generated customer contracts typically have an initial term of three years (two years in California) with automatic renewals for successive 30-day periods unless canceled by either party. If an accepted security services account is canceled during the charge-back period, generally thirteen months, the dealer is required to provide an account with equivalent economic characteristics or to refund our payment for their services for generating the account.

Additions to our customer base typically require an upfront investment, consisting primarily of direct materials and labor to install the security and home/business automation systems, direct and indirect sales costs, marketing costs and administrative costs related to installation activities. The economics of our installation business varies slightly depending on the customer acquisition channel. We operate our business with the goal of retaining customers for long periods of time in order to recoup our initial investment in new customers, generally achieving cash flow break-even in approximately three years.

Field Operations

We serve our customer base from approximately 200 sales and service offices located throughout the United States and Canada. From these locations our staff of approximately 4,400 installation and service technicians provides monitored security and home/business automation system installations and field service and repair. We staff our field

offices to efficiently and effectively make sales calls, install systems and provide service support based on customer needs and our evaluation of growth opportunities in each market and utilize third party subcontract labor when appropriate. We maintain the relevant and necessary licenses related to the provision of installation and security and related services in the jurisdictions in which we operate.

4

Table of Contents

Monitoring Facilities and Support Services

We operate ten redundant monitoring facilities located across the United States and Canada. We employ approximately 4,100 monitoring center customer care professionals, who are required to complete extensive initial training and receive ongoing training and coaching. Most of our monitoring facilities are listed by Underwriters Laboratories, Inc. ("U.L.") as protective signaling services stations. To obtain and maintain a U.L. listing, a security system monitoring center must be located in a building meeting U.L.'s structural requirements, have back-up computer and power systems and meet U.L. specifications for staffing and standard operating procedures. Many jurisdictions have laws requiring that security systems for certain buildings be monitored by U.L. listed facilities. In addition, a U.L. listing is required by insurers of certain customers as a condition of insurance coverage. In the event of an emergency at one of our monitoring facilities (e.g., fire, tornado, major interruption in telephone or computer service or any other event affecting the functionality of the facility), all monitoring operations can be automatically transferred to another monitoring facility. All of our monitoring facilities operate 24 hours a day on a year-round basis.

Customer Care

We maintain a service culture aimed at "Creating Customers for Life" because developing customer loyalty and continually increasing customer tenure is an important value driver for our business. To maintain our high standard of customer service, we provide ongoing high quality training to call center and field employees and to dealer personnel. We also continually measure and monitor key operating and financial metrics, including customer satisfaction oriented metrics across each customer touch point.

Customer care specialists answer non-emergency inquiries regarding service, billing, alarm testing and support. Our monitoring centers provide customers with telephone and Internet coverage 24 hours a day on a year-round basis. To ensure that technical service requests are handled promptly and professionally, all requests are routed through our customer contact centers. Customer care specialists help customers resolve minor service and operating issues related to monitored security and home/business automation systems and in many cases are able to remotely resolve customer concerns. We continue to implement new customer self-service tools via interactive voice response systems and the Internet, which will provide customers additional choices in managing their services.

Suppliers

We purchase equipment and components of our products from a limited number of suppliers and distributors. Inventory is held in our regional distribution center at levels we believe sufficient to meet current and anticipated customer needs. We also maintain inventory of equipment and components at each field office and in technicians' vehicles. Generally our third-party distributors maintain safety stock of certain key items to cover any minor supply chain disruptions. We also utilize dual sourcing methods to minimize the risk of a disruption from a single supplier. We do not anticipate any major interruptions in our supply chain.

Industry and Competition

We believe that technology trends are creating significant change in our industry. Innovation has lowered the barriers to entry in home automation, and new business models and competitors have emerged. We believe that a combination of increasing customer interest in lifestyle and business productivity and technology advancements will support the increasing penetration of interactive services and home/business automation. We are focused on extending our leadership position in the monitored security industry while also growing our share of the fast-growing home/business automation industry. The security systems market in the United States and Canada remains highly competitive and fragmented, with a number of major firms and thousands of smaller regional and local companies. The high fragmentation of the industry is primarily the result of relatively low barriers to entering the business in local geographies and the availability of wholesale monitoring (whereby smaller companies outsource their monitoring to operations that provide monitoring services but do not maintain the customer relationship). We believe that our principal competitors within the security systems market are Protection One, Inc., Monitronics International, Inc., Vivint, Inc., Comcast Corporation and AT&T, Inc.

Success in acquiring new customers in the residential and business security and home/business automation markets is dependent on a variety of factors, including company brand and reputation, market visibility, service and product capabilities, quality, price and the ability to identify and sell to prospective customers. Competition is often based

primarily on price in relation to value of the solutions and service. Rather than compete purely on price, we emphasize the quality of our monitored security and home/business automation services, the reputation of our industry leading brands and our knowledge of customer needs, which together allow us to deliver an outstanding customer experience. In addition, we are increasingly offering added features and functionality, such as those in our ADT Pulse® interactive services offering, which provide new services and capabilities that serve to further differentiate our offering and support a pricing premium.

5

Table of Contents

We believe our robust field sales force, including our nationwide team of in-home sales consultants, our solid reputation for and expertise in providing reliable security and monitoring services through our in-house network of fully redundant monitoring centers, our reliable product solutions and our highly skilled installation and service organization position us well to compete with traditional and new competitors.

Seasonality

Our business experiences a certain level of seasonality. Because more household moves take place during the second and third calendar quarters of each year, our disconnect rate is typically higher in those quarters than in the first and fourth calendar quarters. There is also a slight seasonal effect on our new customer installation volume and related cash expenses incurred in investment in new subscribers; however, other factors, such as the level of marketing expense and relevant promotional offers, can mitigate any seasonality effects. In addition, due to weather related incidences, we may see increased servicing costs related to higher alarm signals and customer service requests as a result of customer power outages and related issues.

Intellectual Property

Patents, trademarks, copyrights and other proprietary rights are important to our business, and we continuously refine our intellectual property strategy to maintain and improve our competitive position. We register new intellectual property to protect our ongoing technological innovations and strengthen our brand, and we take appropriate action against infringements or misappropriations of our intellectual property rights by others. We review third-party intellectual property rights to help avoid infringement and to identify strategic opportunities. We typically enter into confidentiality agreements to further protect our intellectual property.

We own a portfolio of patents that relate to a variety of security and home/business automation technologies utilized in our business, including security panels and sensors and video and information management solutions. We also own a portfolio of trademarks, including ADT®, ADT Pulse®, ADT Always There®, Companion Service® and Creating Customers for Life®, and are a licensee of various patents and trademarks, including from our third-party suppliers and technology partners. Due to the importance that customers place on reputation and trust when making a decision on a security provider, our brand is critical to our business. Patents for individual products extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. Trademark rights may potentially extend for longer periods of time and are dependent upon national laws and use of the marks.

Government Regulation and Other Regulatory Matters

Our operations are subject to numerous federal, state, provincial and local laws and regulations in the United States and Canada in areas such as consumer protection, occupational licensing, environmental protection, labor and employment, tax, licensing and other laws and regulations. Most states and provinces in which we operate have licensing laws directed specifically toward the monitored security industry. In certain jurisdictions, we must obtain licenses or permits in order to comply with standards governing employee selection, training and business conduct. We also currently rely extensively upon the use of both wireline and wireless telecommunications to communicate signals, and wireline and wireless telephone companies in the United States are regulated by federal, state and local governments. The U.S. Federal Communications Commission ("FCC") and state public utilities commissions regulate the operation and use of wireless telephone and radio frequencies. Although the use of wireline phone service has been decreasing, we believe we are well positioned to respond to these trends with alternate transmission methods that we already employ, including cellular and broadband Internet technologies. Our advertising and sales practices are regulated by the U.S. Federal Trade Commission ("FTC") and state consumer protection laws. In addition, we are subject to certain administrative requirements and laws of the jurisdictions in which we operate. These laws and regulations may include restrictions on the manner in which we promote the sale of our security services and require us to provide most purchasers of our services with three-day or longer rescission rights.

Some local government authorities have adopted or are considering various measures aimed at reducing false alarms. Such measures include requiring permits for individual alarm systems, revoking such permits following a specified number of false alarms, imposing fines on customers or alarm monitoring companies for false alarms, limiting the number of times police will respond to alarms at a particular location after a specified number of false alarms, requiring additional verification of an alarm signal before the police respond or providing no response to residential

system alarms. See risk factors "We could be assessed penalties for false alarms" and "Police departments could refuse to respond to calls from monitored security service companies."

6

Table of Contents

The monitored security industry is also subject to requirements, codes and standards imposed by various insurance, approval and listing and standards organizations. Depending upon the type of customer, security service provided and requirements of the applicable local governmental jurisdiction, adherence to the requirements, codes and standards of such organizations is mandatory in some instances and voluntary in others.

Changes in laws and regulations can affect our operations, both positively and negatively, and impact the manner in which we conduct our business.

Employees

As of September 26, 2014, we employed approximately 17,500 people. Approximately 12% of our employees are covered by collective bargaining agreements. We believe that our relations with our employees and labor unions have generally been good.

Available Information

ADT is required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). Investors may read and copy any document that ADT files, including this Annual Report on Form 10-K, at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, from which investors can electronically access ADT's SEC filings.

We maintain a web site at www.adt.com. We make available free of charge on or through our web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. In addition, we have posted the charters for our Audit Committee, Compensation Committee, and Nominating and Governance Committee, as well as our Board Governance Principles and Code of Conduct, on our web site under the heading "Corporate Governance."

Executive Officers of the Registrant

The following information is provided regarding the executive officers of ADT. Information with respect to our directors is incorporated by reference to information included in the Proxy Statement for our 2015 Annual Meeting of Stockholders.

David Bleisch - 55

Mr. Bleisch is the Company's Senior Vice President, Chief Legal Officer and Corporate Secretary. Prior to the separation from Tyco in September 2012, he served as Vice President and General Counsel of Tyco's ADT North American Residential business segment. Prior to the restructuring of the segment in fiscal year 2012, Mr. Bleisch was the Vice President and General Counsel of Tyco Security Solutions, the largest segment of Tyco. He also managed the intellectual property legal group for all of Tyco's operating segments worldwide. Mr. Bleisch joined Tyco in 2005 as Vice President and General Counsel of ADT North America and Deputy General Counsel of Tyco Fire & Security. Prior to joining Tyco, he was Senior Vice President, General Counsel and Corporate Secretary of The LTV Corporation in Cleveland, Ohio. Prior to joining LTV, Mr. Bleisch was a partner in the law firm of Jackson Walker LLP, where he served as a corporate transactional attorney before transitioning to commercial trial work. He holds a Bachelor of Arts from Carleton College and a Juris Doctor from Boston College Law School. He is a member of the State Bar of Texas.

Don Boerema - 57

Mr. Boerema is the Company's Senior Vice President and Chief Corporate Development Officer. He leads the Health Business and is responsible for driving growth and enhancing customer experience for ADT's health services. He also directs ADT's corporate strategy and market and business development. Prior to the separation from Tyco in September 2012, Mr. Boerema served as Chief Marketing Officer for Tyco's ADT North American Residential and Commercial business segments, overseeing all strategic marketing and communications and leading all advertising and online interactive marketing initiatives across ADT North America. Prior to joining ADT in November 2007, he served as President and Chief Operating Officer for FDN Communications, a privately held telecommunications

company, where he was responsible for all aspects of sales, marketing, network operations engineering and customer care. Mr. Boerema also served as Senior Vice President of Business Solutions for AT&T Wireless and led sales and marketing for a division of McCaw Cellular Communications. Before joining McCaw, he held management positions with PepsiCo, Inc. and began his career at The Procter & Gamble Company. Mr. Boerema holds a Bachelor of Science in Marketing and Finance and a Master of Business Administration from Eastern Illinois University.

7

Table of Contents

Jerri DeVard - 56

Ms. DeVard was appointed the Company's Senior Vice President and Chief Marketing Officer in March 2014. She is responsible for all strategic, operational and financial aspects of the Company's integrated marketing programs including brand advertising, digital marketing, communications, lead generation, sponsorships, media, and other initiatives. Prior to joining ADT in March 2014, Ms. DeVard served as Nokia's first chief marketing officer. As a member of Nokia's executive committee, she oversaw all global and local marketing, advertising, brand management, insights, retail, partnership, and sponsorship activities for consumer and small business. Before joining Nokia she held various marketing leadership positions in Fortune 100 organizations including senior vice president, marketing and brand management for Verizon Communications and chief marketing officer, e-consumer for Citigroup. Ms. DeVard is a Director of Belk Stores and holds a Master of Business Administration in Marketing from Atlanta University Graduate School of Business and a Bachelor of Arts in Economics from Spelman College.

Mark Edoff - 56

Mr. Edoff is the Company's Senior Vice President of Business Operations Optimization. He is responsible for increasing efficiency and driving overall business process improvements in the Company. Prior to the separation from Tyco in September 2012, Mr. Edoff served as Vice President and Chief Financial Officer of Tyco Security Solutions from October 2010 until the restructuring of the segment in fiscal year 2012. He joined Tyco in 2003 as Vice President and Corporate Controller for the former Tyco Fire & Security business. In 2004, Mr. Edoff assumed the role of Chief Financial Officer for ADT North America, which included responsibility for the combined residential and commercial security business. Previously, he served as the Director of Finance and Principal Accounting Officer for The Gillette Company. Before joining Gillette, he had a 15-year career with KPMG, where he was a Partner in the Assurance practice. Mr. Edoff holds a Bachelor of Science in Business Administration from Northeastern University and is a Certified Public Accountant.

Alan Ferber - 47

Mr. Ferber was appointed the Company's President of the Residential Business in October 2013. He is responsible for driving growth in the residential market through marketing, sales and exceptional customer service. He joined ADT in April 2013 as Senior Vice President and Chief Customer Officer, responsible for developing strategies and executing programs designed to create and sustain a superior experience for ADT customers. Previously, Mr. Ferber served as Chief Strategy and Brand Officer at U.S. Cellular. During his 11-year career with U.S. Cellular, he held various senior leadership roles in sales, marketing and operations, including Executive Vice President of Operations, Chief Marketing Officer and Vice President of Marketing and Sales Operations. He joined U.S. Cellular from Traq Wireless, a start-up management software and service provider he co-founded and built into a 100-employee, venture capital-backed company. Earlier in his career, Mr. Ferber held positions with Ameritech Corporation and First Chicago Corporation (now part of JPMorgan Chase & Co.). He holds a Bachelor of Arts from the University of Michigan and a Master of Business Administration from Northwestern University's Kellogg School of Management.

Michael Geltzeiler - 56

Mr. Geltzeiler was appointed the Company's Senior Vice President and Chief Financial Officer in November 2013. He is responsible for all aspects of finance, treasury and investor relations and ADT's financial strategy to help grow its business operations and create stockholder value. Before joining ADT, Mr. Geltzeiler served as Chief Financial Officer and Group Executive Vice President at NYSE Euronext from 2008 to November 2013. From 2001 to 2008, he was an executive at the Reader's Digest Association, as Chief Financial Officer for six years, then as President of School and Educational Services. Previously, he served in financial leadership roles at ACNielsen Corporation, including Chief Financial Officer of Marketing Services and Corporate Controller and Chief Financial Officer, EMEA Region; and in a variety of senior finance positions both in the U.S. and abroad for Dun & Bradstreet. Mr. Geltzeiler holds a Bachelor of Science in Accounting from the University of Delaware, a Master of Business Administration in Finance from New York University's Stern School of Business, and a CPA certification in the State of New York.

Table of Contents

Naren Gursahaney - 52

Mr. Gursahaney is the Company's President and Chief Executive Officer. He also serves as a member of the Company's Board of Directors. Prior to the separation from Tyco in September 2012, Mr. Gursahaney served as President of Tyco's ADT North American Residential business segment. Prior to the restructuring of the segment in fiscal year 2012, he was the President of Tyco Security Solutions, the world's largest electronic security provider to residential, commercial, industrial and governmental customers and the largest operating segment of Tyco. Mr. Gursahaney joined Tyco in 2003 as Senior Vice President of Operational Excellence. He then served as President of Tyco Engineered Products and Services and President of Tyco Flow Control. Prior to joining Tyco, Mr. Gursahaney was President and Chief Executive Officer of GE Medical Systems Asia, where he was responsible for the company's \$1.6 billion sales and services business in the Asia-Pacific region. During his 10-year career with GE, Mr. Gursahaney held senior leadership roles in services, marketing and information management. His career also includes positions with Booz Allen & Hamilton and Westinghouse Electric Corporation. Mr. Gursahaney holds a Bachelor of Science in Mechanical Engineering from The Pennsylvania State University and a Master of Business Administration from the University of Virginia. Mr. Gursahaney is on the board of directors of NextEra Energy, Inc., where he serves on the Audit Committee.

Kathleen McLean - 54

Ms. McLean was appointed the Company's Senior Vice President and Chief Information Officer in May 2013. She is responsible for developing and executing ADT's information technology strategy in support of its product development and business operations. Ms. McLean also serves as Chief Customer Officer of the Company and is responsible for defining and delivering a superior customer experience for monitoring and response, ordering, provisioning, billing and service. Ms. McLean has more than 30 years of business and strategic technology leadership experience, including service with world-leading consulting and telecommunications corporations. Before joining ADT, she served as Executive Vice President, Chief Revenue Officer and Chief Information Officer at FairPoint Communications, Inc. where, as a member of the executive committee, she was responsible for systems stability, operational excellence and revenue growth. Prior to FairPoint Communications, Inc., she spent nearly 12 years in several leadership positions at Verizon Communications, Inc., implementing people, process and systems strategies to improve operating performance and customer service across all sectors of the company. Earlier in her career, Ms. McLean worked for American Management Systems, Inc. (now part of CGI Group, Inc.) in leadership positions culminating as Vice President in the Telecom Industry Group. She holds a Bachelor of Science in International Economics from Georgetown University and did graduate work in information systems management at George Washington University.

Laura Miller - 49

Ms. Miller was appointed the Company's Senior Vice President and Chief Human Resources Officer in May 2014. She oversees all strategic human resources operations including human resources business partners, shared services, compensation and benefits, talent acquisition and management, and labor and employee relations. She also develops and directs ADT's change management strategy and implementation, including merger and acquisition activities. Prior to joining ADT, Ms. Miller served in various senior leadership roles within the Coca-Cola Company in Atlanta, most recently as Chief Human Resources Officer for Coca-Cola Refreshments. As a member of Coca-Cola's executive leadership team, she oversaw all areas of human resources, including HR business partners, shared services, and centers of expertise to include compensation and benefits, talent acquisition, talent management, labor and employee relations, and diversity and inclusion. Prior to Coca-Cola, Ms. Miller held various human resources leadership positions for Raytheon Company, a leading defense contractor and industrial corporation based in Waltham, MA. Ms. Miller holds a Bachelor of Science in Industrial and Labor Relations from Cornell University.

Luis Orbegoso - 44

Mr. Orbegoso was appointed the Company's President of Business in September 2014. He is responsible for developing and executing ADT's strategy to grow its share of security and automation customers in the small and mid-sized business market. He joined ADT in May 2013 as Senior Vice President of Small Business, and in October 2013 he was appointed as President of Small Business. Previously Mr. Orbegoso served as President of the Global Fire Detection and Alarm segment for United Technologies Corporation ("UTC") Climate, Controls and Security. He

previously served as President of Lenel Systems International, a division of UTC's Fire and Security segment. Prior to joining UTC in 2008, Mr. Orbegoso spent 13 years with General Electric in a variety of sales, marketing and general management roles, culminating as Chief Marketing Officer of GE Equipment Services. He holds a Bachelor of Science in Mechanical Engineering from the University of Cincinnati and a Master of Business Administration from Northwestern University's Kellogg School of Management.

Table of Contents

Arthur Orduña - 49

Mr. Orduña is the Company's Senior Vice President and Chief Innovation Officer, leading the Company's vision for innovation and product development. He is responsible for building the strategic roadmap for new and existing solutions, defining product architecture and positioning ADT as a partner of choice for key technology companies. Prior to joining ADT in October 2012, he worked for Canoe Ventures, LLC, a joint venture founded by the top six U.S. cable companies, first serving as Chief Technology Officer then Chief Product Officer. He was responsible for building a national data and interactive services platform, developing product and technology strategies, and launching new applications and services with key partners including Comcast Cable, NBC-Universal, Time Warner Cable and Cox Communications. Prior to joining Canoe Ventures, Mr. Orduña was Senior Vice President of Policy & Product for Advance/Newhouse - Bright House Networks. Earlier in his career, he served as Vice President of Product & Marketing for Canal+ Technology U.S./Vivendi-Universal, and also Vice President of Product & Marketing for Integrated Systems Inc./Diab-SDS before its acquisition by Wind River Systems/Intel. He holds a Bachelor of Arts from Cornell University.

Item 1A. Risk Factors.

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our Company could have a material and adverse impact on our business, financial condition, results of operations and cash flows. You should carefully consider the risks described below and in our subsequent periodic filings with the SEC. The following risk factors should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated and combined financial statements and related notes in this report.

Risks Relating to Our Business

We sell our products and services in highly competitive markets, including the home automation market, which may result in pressure on our profit margins and limit our ability to maintain or increase the market share of our products and services. We may not be able to continue to develop and execute a competitive yet profitable pricing structure. The monitored security industry is highly fragmented and subject to significant competition and pricing pressures. We experience significant competitive pricing pressures on installation, monitoring and service fees. Several significant competitors offer installation fees that match or are lower than ours. Other competitors charge significantly more for installation but, in many cases, less for monitoring. In addition, cable and telecommunications companies are expanding into the monitored security industry and are bundling their existing offerings with monitored security services. In some instances, it appears that the monitored security services component of such bundled offerings is significantly underpriced and, in effect, subsidized by the rates charged for the other services offered by these companies. These pricing alternatives may influence customers' desire to subscribe to our services at rates and fees we consider appropriate. In many cases, we face competition for direct sales from our authorized dealers, who may offer installation for considerably less than we do in particular markets. We believe that the monitoring and service fees we offer are generally competitive with rates offered by other security service providers. We face competition from other providers such as cable and telecommunications companies that may have greater capital and resources than us, and may benefit from superior advertising, marketing and promotional resources which could have a material adverse effect on our ability to drive awareness and demand for our products and services. We also face potential competition from improvements in Do-It-Yourself (DIY) or self-monitoring systems which enable customers to monitor and control their environments without third-party involvement through the Internet, text messages, emails or similar communications, but with the disadvantage that alarm events may go unnoticed. It is possible that one or more of our competitors could develop a significant technological advantage over us that allows them to provide additional service or better quality service or to lower their price, which could put us at a competitive disadvantage. Continued pricing pressure or improvements in technology and shifts in customer preferences towards self-monitoring or DIY could adversely impact our customer base and/or pricing structure and have a material adverse effect on our business, financial condition, results of operations and cash flows.

We resist competing on price alone because we believe we have competitive advantage such as brand name recognition and a reputation for a high level of service and security. However, with cable and telecommunications companies actively targeting the home automation market and expanding into the monitored security space, and with

large technology companies expanding into the connected home market through the development of their own solutions or the acquisition of other companies with home automation solution offerings, this increased competition could result in pricing pressure, a shift in customer preferences towards the services of these companies and reduce our market share. Continued pricing pressure from these competitors or failure to achieve pricing based on the competitive advantages previously identified above could prevent us from maintaining competitive price points for our products and services resulting in lost customers or in our inability to attract new customers and have an adverse effect on our business, financial condition, results of operations and cash flows.

Table of Contents

Our future growth is dependent upon our ability to successfully compete with new and existing competitors by developing or acquiring new technologies that achieve market acceptance with acceptable margins.

Our business operates in markets that are characterized by rapidly changing technologies, evolving industry standards and potential new entrants. For example, a number of cable and other telecommunications companies and large technology companies with home automation solutions are offering interactive security services that are competitive with our products and services. If these services gain market acceptance and traction, our ability to grow our business, in particular our ADT Pulse® offering, could be materially and adversely affected. Accordingly, our future success depends in part on our ability to accomplish the following: identify emerging technological trends in our target end-markets; develop, acquire and maintain competitive products and services; enhance our products and services by adding innovative features that differentiate us from our competitors; and develop or acquire and bring products and services to market quickly and cost-effectively. Our ability to develop or acquire new products and services that are technologically innovative requires the investment of significant resources and can affect our competitive position. These acquisitions and development efforts divert resources from other potential investments in our businesses, and they may not lead to the development of new commercially successful technologies, products or services on a timely basis. Moreover, as we introduce new products and services, we may be unable to detect and correct defects in the product or in its installation, which could result in loss of sales or delays in market acceptance. New or enhanced products and services may not satisfy consumer preferences and potential product failures may cause consumers to reject our products. As a result, these products and services may not achieve market acceptance and our brand image could suffer. In addition, our competitors may introduce superior designs or business strategies, impairing our brand, our ability to charge a monthly service fee for our products or services and the desirability of our products and services, which may cause consumers to defer or forego purchases of our products and services. In addition, the markets for our products and services may not develop or grow as we anticipate. The failure of our technology, products or services to gain market acceptance, the potential for product defects or the obsolescence of our products and services could significantly reduce our revenue, increase our operating costs or otherwise adversely affect our business, financial condition, results of operations or cash flows.

In addition to developing and acquiring new technologies and introducing new offerings, we may need, from time to time, to phase out outdated and unsuitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits.

Expiration of non-competition agreements, including non-solicit restrictions, could allow the entry of potential competitors with deep knowledge of our business.

In connection with our Separation from Tyco in 2012, we entered into a Separation and Distribution Agreement with Tyco, which included (i) non-compete provisions pursuant to which Tyco was prohibited from competing with us in the residential and small business security markets in the Un