

COPsync, Inc.

(OTCQB: COYN, Target Price: \$0.38)

We initiate coverage on COPsync, Inc. ("COPsync") with a price target of \$0.38 per share. COPsync operates the largest law enforcement mobile data information system and interoperability network in the U.S. The COPsync Network enables officers to report and share actionable, mission-critical data in real-time and collect for outstanding misdemeanor warrants in real-time at the point of incident. Officers are also able to obtain instant access to local, state and federal law enforcement databases. COPsync offers law enforcement a highly effective tool to help prevent crime and significantly increase officer efficiency and safety. COPsync has also launched the COPsync 911 threat alert service, for use in schools, hospitals, day care facilities, government office buildings, energy infrastructure and other facilities with a high level of concern about security.

INVESTMENT HIGHLIGHTS

COPsync Network is a one of a kind crime prevention tool

The COPsync Network, delivered via software as a service, allows law enforcement officers to compile and share information, in real-time, via a common database accessible by all such officers on the COPsync Network, regardless of agency jurisdiction. This helps overcome the "silo effect," or the lack of information sharing between law enforcement agencies on the federal, state and local levels. Although it is simple in concept, the COPsync Network is a highly sophisticated tool which provides critical information to officers in the field. A lone officer at the point of incident equipped with COPsync can instantly alert fellow officers within the immediate vicinity or a ten-mile radius or across all 50 states. In return, every officer and every department with COPsync can communicate with one another, exchanging information and closing in on a solution with unprecedented speed and effectiveness. This tool can increase officer efficiency, effectiveness and safety and help crime prevention.

Significantly underpenetrated market

COPsync currently has approximately 440 law enforcement agencies and courts, primarily in Texas, contracted to share law enforcement data and communicate among themselves using the COPsync Network. COPsync currently has at least one customer using the COPsync Network in 66% of the 254 Texas counties and it has a 95% customer renewal rate. In 2013, COPsync reported revenues of \$4.6mn, a 46.5% increase over 2012. However, COPsync has yet to sign a large municipal agreement in Texas (1500+ officers) and has just begun expansion testing in Mississippi and Massachusetts. There are approximately 1 million police officers in the U.S., and with its current customer base, COPsync has only just begun to penetrate this large market opportunity.

COPsync911 threat alert service

The COPsync911 threat alert service enables persons to instantly and silently send emergency alerts directly to the closest law enforcement officers in their patrol vehicles and the local 911 dispatch center by clicking an icon using a desktop computer or an iOS or Android powered mobile device. In an age of highly publicized school shootings and other public safety threats, COPsync911 offers users an effective tool to mitigate the risk of such incidents.

Initiate coverage with a price target of \$0.38

Our analysis indicates a fair value estimate of \$0.38 per share (detailed on pages 10 and 11), implying an upside of 247% from the recent price of \$0.11. We view COPsync as a speculative investment in the law enforcement services space. The one of a kind COPsync Network has the chance to drastically change the way information is transmitted in the law enforcement industry.

Stock Details (04/17/2014)

OTCQB:	COYN
Sector / Industry	Services / Application Software
Price target	\$0.38
Recent share price	\$0.11
Shares o/s (mn)	175.0
Market cap (in \$mn)	\$19.3
52-week high/low	\$0.13 / 0.06

Source: Bloomberg, SeeThruEquity Research

Key Financials (\$mn unless specified)

	FY12	FY13	FY14E
Revenues	3.2	4.7	7.6
EBITDA	(3.7)	(3.1)	(0.4)
EBIT	(4.2)	(3.6)	(0.9)
Net income	(4.3)	(3.8)	(1.1)
EPS (\$)	(0.03)	(0.02)	(0.01)

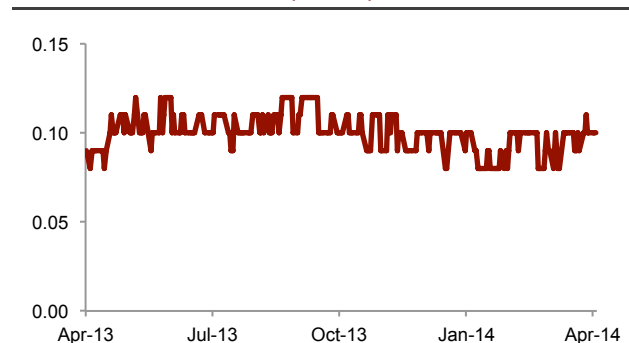
Source: SeeThruEquity Research

Key Ratios

	FY12	FY13	FY14E
Gross margin (%)	27.4	26.6	43.9
Operating margin (%)	(128.7)	(75.9)	(11.6)
EBITDA margin (%)	(114.1)	(65.9)	(5.4)
Net margin (%)	(133.0)	(81.3)	(15.0)
P/Revenue (x)	5.7	3.9	2.4
EV/EBITDA (x)	(5.2)	(6.1)	(46.7)
EV/Revenue (x)	5.9	4.0	2.5

Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Source: Bloomberg



SUMMARY TABLE

Figure 1. Summary Table (As of April 17, 2014)

Share data		B/S data (As of 4Q13)		Key personnel:	
Recent price:	\$0.11	Total assets:	1.6mn	Chief Executive Officer:	Ronald Woessner
Price target:	\$0.38	Total debt:	1.1mn	Chief Financial Officer:	Barry Wilson
52-week range:	0.13 / 0.06	Equity:	(4.9mn)	Chairman:	Russell Chaney
Average volume:*	23,151	W/C:	(3.7mn)	President:	J. Shane Rapp
Market cap:	\$18.4mn	ROE '13:	-216%		
Book value/share:	(\$0.03)	ROA '13:	-252%		
Cash/share	\$0.00	Current ratio:	0.2		
Dividend yield:	0.00%	Asset turnover:	3.8		
Risk profile:	High / Speculative	Debt/Cap:	(0.3)		

* three month average volume (number of shares)

Estimates				Valuation		
FY December	Rev (\$mn)	EBITDA (\$mn)	EPS (\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
2011	2.5	(2.5)	(0.02)	7.2x	7.5x	NM
2012A	3.2	(3.7)	(0.03)	5.7x	5.9x	NM
1Q13A	4.7	(3.1)	(0.02)	1.0x	1.0x	NM
2Q13A	1.9	(0.1)	(0.00)	2.4x	2.5x	NM
3Q13A	1.9	(0.1)	(0.00)	2.4x	2.5x	NM
4Q13E	1.9	(0.3)	(0.00)	2.4x	2.5x	NM
2013E	1.9	(0.4)	(0.00)	9.7x	2.5x	NM
2014E	7.6	(0.4)	(0.01)	2.4x	2.5x	NM
2015E	12.8	2.3	0.01	1.4x	1.5x	9.1x

Source: SeeThruEquity Research

INVESTMENT THESIS

COPsync, Inc. ("COPsync") operates the largest law enforcement mobile data information system and interoperability network in the U.S. The COPsync Network enables officers to report and share actionable, mission-critical data in real-time and collect for outstanding misdemeanor warrants in real-time at the point of incident. Officers are also able to obtain instant access to local, state and federal law enforcement databases. COPsync offers law enforcement a highly effective tool to help prevent crime and significantly increase officer efficiency and safety. COPsync has also launched the COPsync 911 threat alert service, for use in schools, hospitals, day care facilities, government office buildings, energy infrastructure and other facilities with a high level of concern about security. COPsync also offers VidTac, a software driven, in-vehicle video system which is believed to be the only 100% digital, high-performance video system designed for law enforcement.

Co-founded by Chairman Russell Chaney and President J. Shane Rapp, who both have long histories in law enforcement, COPsync is working to address the major inefficiencies of how information is shared between law enforcement agencies and the officers working in the field. COPsync has made significant inroads and produced impressive revenue growth in a very short time period, and the 95% user renewal rate further validates the product. There is tremendous potential for COPsync's products, as the company has mainly focused its efforts in Texas thus far, and has yet to sign contracts with large municipalities in Texas. Once COPsync achieves the desired scale, or "tipping point" in Texas, expansion into neighboring geographies such as Louisiana, Oklahoma, New Mexico and Arizona would be a logical strategy, as the initial benefits of the system are the greatest where the highest concentration of usage is taking place. However, COPsync is beginning opportunistic rollouts of the COPsync network in Mississippi and Massachusetts, and the Southeast and Northeast could also prove to be viable locations for expansion opportunities as well.

COPsync Network is a one of a kind crime prevention tool

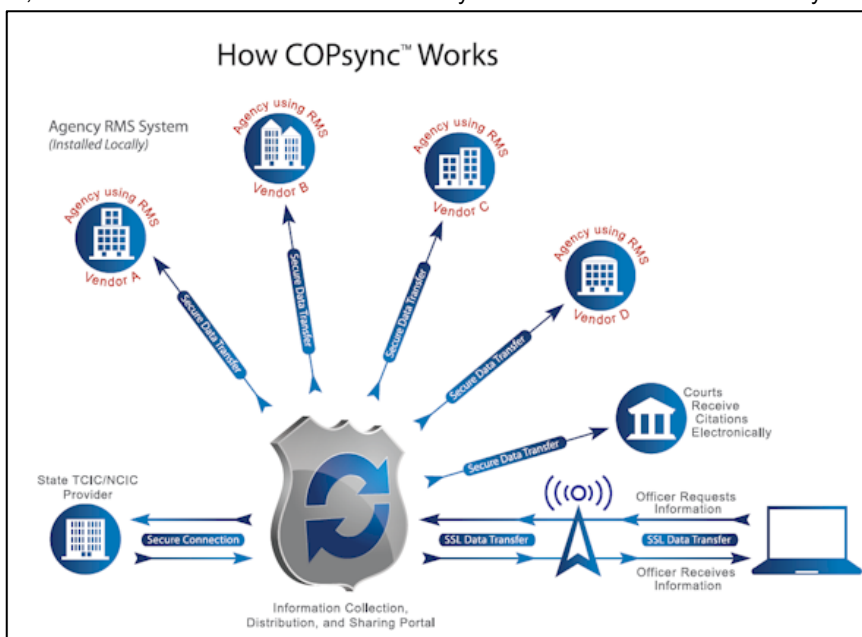
The COPsync Network, delivered via software as a service, allows law enforcement officers to compile and share information, in real-time, via a common database accessible by all such officers on the COPsync

Network, regardless of agency jurisdiction. This helps overcome the “silo effect,” or the lack of information sharing between law enforcement agencies on the federal, state and local levels. Operating within an information silo has been the norm for state and local law enforcement agencies, and information about criminals and criminal activity known to one law enforcement agency is typically contained only in the database of that agency, and is not shared or made known to other agencies, even those that are geographically proximate. In the Homeland Security

Act of 2002, Congress mandated that all U.S. law enforcement agencies, federal, state and local, implement information sharing solutions, referred to as “interoperability.” Even after the Security Act, interoperability never took hold in the U.S., and the silo practice continued, not so much because of an unwillingness to share information, but because law enforcement software vendors maintain and operate proprietary systems that do not interoperate with systems of other vendors. Furthermore, the only exceptions to these information silos are the FBI National Crime Information Center (“NCIC”) and each state’s law enforcement telecommunications system (“LETS”). However, these databases offer limited value, as they only provide adjudicated information, such as certain warrant issuances, convictions or prison sentences. Critical additional non-adjudicated information, such as whether the person has made a threat against law enforcement, is a known gang member, has been questioned for suspicious activity, or is known to carry a weapon, is not provided.

The COPsync Network was designed specifically to address these issues and provide law enforcement a powerful information tool that otherwise does not exist in the industry. COPsync connects the proprietary systems of these various vendors, thus enabling the sharing of real-time, in-field, information between the agency customers of those vendors. The COPsync Network acts as an overlay for those vendors who do not offer an in-vehicle mobile technology or an underlay that operates in the background for those vendors that do offer an in-vehicle mobile technology. The COPsync Network service provides patrol officers with in-car, real-time, access to the adjudicated NCIC and LETS data, the El Paso Intelligence Center (“EPIC”) border crossing data, and also have access to all non-adjudicated data from all other agencies and officers using the COPsync Network, regardless of the type of computer infrastructure used by the other agencies. Using the COPsync Network, agencies and officers can communicate with each other in real time through instant messaging (computer to computer) or SMS (computer to cell phone). This ability enables the instantaneous communication of information to an individual officer, an agency, a county, a state or even the entire country. COPsync currently does not pay a fee for accessing these databases, as it are merely a third party conduit for the information to flow from the databases to the utilizing officers and/or administrators. Additionally, COPsync does not need any special security approval to be a transmitter of the information, it only needs to certify with the state where the COPsync Network system is being used and otherwise comply with the FBI Criminal Justice Information System (“CJIS”) rules.

As of mid-April 2014, approximately 440 law enforcement agencies and courts, primarily in the State of Texas, had contractually subscribed to the COPsync Network real-time data collection, data sharing, and warrant collection service. COPsync currently has at least one customer using the COPsync Network in 68% of the 254 Texas counties. To date, the COPsync Network service has successfully submitted, processed and relayed over 7,494,000 officer initiated information requests. On average, the service returns responses



to customers in less than five seconds, well within the 32 second average NCIC 2000 standard for mobile clients.

Source: Company filings and investor materials, SeeThruEquity Research

Increasing officer efficiency

Another ancillary benefit of the COPsync system is its ability to improve officer efficiency by allowing officers to write tickets, offense reports, crash reports and other reports and electronically and seamlessly send, in real-time or near real-time, the information in those reports to the COPsync database and local court and agency databases. A special feature of the COPsync Network, WARRANTsync, enables patrol officers to accept payment for outstanding class C misdemeanor (traffic offense) warrants via credit card or debit card or to deliver the offender a "warning notice" that a Class C warrant has been issued for their arrest, during any traffic stop, even if the officers are in another jurisdiction. There are an estimated several Billions of dollars in uncollected traffic offense warrants in Texas alone. WARRANTsync automatically sends all credit card payments to the warrant issuing court, which avoids the need for expensive manual processes and reconciliations, and bills the warrant issuing court for the statutory warrant collection fee owed to the agency that executed the warrant. As an example of the officer efficiency created by COPsync, the average DUI arrest in the State of Texas takes between 3.5 and 4.0 hours to process, in part because of the many required handwritten forms that are involved in the process. Using the COPsync Network, an officer can complete the paperwork for a DUI arrest in a fraction of the time. Routine traffic stops can also be completed in a more expedited manner, and the tickets can be seamlessly and instantaneously sent to the court records management system for processing using the COPsync Network.

Significantly underpenetrated market

Although COPsync has shown excellent revenue growth, reporting annual revenue growth of 26.5% and 46.5% in 2013 and 2012, respectively, the company is still in the very early stages of penetrating the U.S. law enforcement market. There are approximately 1 million police officers and 18,000 law enforcement agencies in the U.S., and COPsync currently reports users across 440 agency and court customers. COPsync has focused its efforts in Texas, which has roughly 1/12th of all the law enforcement officers in the U.S., and has thus far gained small and medium sized agencies. Due to long sales cycles and bureaucratic hurdles, COPsync has not yet signed on with a large municipality in Texas (1500+ officers), but we would anticipate that happening in the next 12-18 months. Signing up a large municipality would not be too onerous for COPsync, as those contracts would likely be 100% software purchases. Currently, 40% of the COPsync Network user base purchases hardware, as their patrol cars do not have the necessary equipment to run the system. While these large municipalities would likely negotiate a bulk discount and push down the price per user, COPsync will benefit from the higher margins per user that come with a software only contract. In addition, growing the user base, and the COPsync internal database of information, would make the COPsync Network that much more valuable, and will allow COPsync to obtain pricing increases as customers renew.

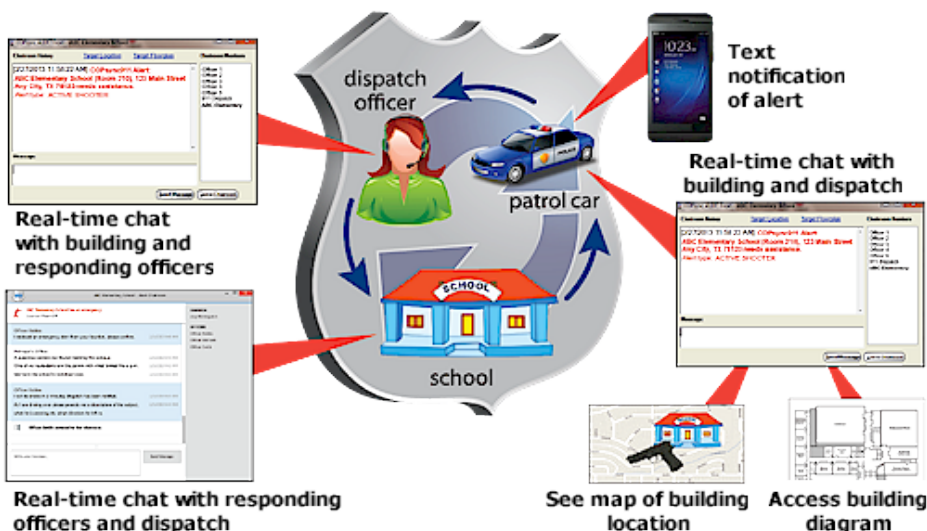
Once COPsync signs an agreement with its first major municipality, we would expect to see the company quickly convert essentially the entire state of Texas and then commence geographic expansion into neighboring states such as Louisiana, Oklahoma, New Mexico and Arizona. Initially, location will be an essential element of the COPsync growth strategy, as there is inherently more value to new users where existing utilization is more concentrated. However, COPsync is taking advantage of some opportunistic demand in Mississippi and Massachusetts, where the COPsync system is being evaluated. In essence, any location where the COPsync Network is deployed can become a "hotspot" for growing the product. Areas with a significant law enforcement presence, such as Florida, Illinois and California, would also be logical future targets for substantial growth opportunities.

The COPsync Network has been validated as an extremely useful law enforcement tool, and features such as a nationwide officer safety alert system, GPS/auto vehicle location and distance-based alerts for crimes in progress, such as child abductions, bank robberies and police pursuits, have helped save lives, reduce crimes and assisted in the apprehending of numerous criminals. This product is only in its infancy, and has significant room to grow.

COPsync911 threat alert service

In 2Q13, COPsync launched the COPsync911 threat alert service for use in schools, hospitals, day care facilities, government office buildings, energy infrastructure and other facilities with a high level of concern about security. Unfortunately, incidents of school violence are increasingly thrust into the national spotlight. Communities are looking to find the optimal balance of protecting children with minimal use of armed

personnel. When used in schools, the COPsync911 service enables school personnel to instantly and silently send emergency alerts directly to the closest law enforcement officers in their patrol vehicles, and to the local 911 dispatch center, simply by clicking an icon located on every computer within the facility. The alert is also sent to the cell phones of all law enforcement officers in the area and to all teachers, administrators, and other staff at the school, alerting them of imminent danger. COPsync anticipates that its COPsync911 service could reduce emergency law enforcement response times by five to seven minutes. Response time is critical in active shooter scenarios, per FBI statistics, in 57% of the shootings an officer arrives while the shooting is still underway and the shooter often stops as soon as he hears or sees law enforcement. Once the alert is sent, a "crisis communication portal" is established among the person sending the alert, the responding patrol vehicles and the local law enforcement's 911 dispatch center. This allows the person initiating the alert to silently communicate with responding officers and the 911 dispatch center about the nature of the threat, whether it is an active gunman, fire, suspicious person or other emergency. The crisis communication portal also provides a link to a floor plan diagram of the school or other business and a map to its location. The COPsync911 service can play a critical role, as active shooter incidents often occur in small and medium-sized communities where police departments are limited by budget constraints and small workforces and where patrol officers are most likely responding alone or with a partner. When responding alone, 75% had to take action and a third of those officers who enter the incident alone are shot by the intruder. COPsync911 alerts officers about a threat more rapidly, it has the ability to alert more officers and it provides those officers with mission critical information about the situation and the facility before arriving on the scene.



Although COPsync911 has only been available for a few months, COPsync has already signed contracts with 80 customers covering over 400 locations (schools, city building, etc.) and the product generated \$361k in sales bookings in 2013 for the company. COPsync has guided to \$1.2-2mn in 2014E revenues from the product, as it is expanding rapidly. Additionally, COPsync911 has received a significant amount of media attention, with over 34 newscasts and print stories, including a feature on the NBC Nightly News with Brian Williams.

Source: Company filings and investor materials, www.fbi.gov, SeeThruEquity Research

VidTac In-Vehicle Video System

COPsync also offers VidTac, an in-vehicle video system that is the world's only 100% digital, high performance, software-driven video system designed for law enforcement. Typical in-vehicle video systems are "hardware centric" DVR-based systems. The video capture, compression and encryption of the video stream is all performed by the DVR. DVR-based systems can be quite expensive, with an estimated price ranging from \$5,100 to \$11,000 per system, and the systems are typically replaced every three to four years as new patrol vehicles are placed into service. VidTac leverages the ability of the computers that many departments already have in the patrol car and provides law enforcement with a twin lens camera system equipped with a 1080p hi



definition video camera and a 5 megapixel still camera, both cameras in one ultra-small camera housing. The system produces twice the image clarity of other systems, and reads license plates at twice the distance. Images can be transmitted to the agency's back office via thumb drive or using WiFi. Multiple redundant drives, the flexibility for agencies to control file size, automatic 5 megapixel snapshots, crash and roll over detection, siren trigger and GPS, all come standard on the VidTac system as well. Further, since the VidTac system is "software driven," software updates and enhancements are seamlessly pushed to the user-base, thus avoiding the need for the customers to incur the expense of a hardware upgrade. COPsync offers the VidTac system at roughly 60% of the price of DVR-based systems, and the product provides an estimated 60% savings on replacement costs. Purchasers can eliminate the expense of DVR hardware and the file size control feature helps reduce long term data storage costs.

COPsync plans to create a further competitive advantage by integrating the VidTac system with the COPsync Network. This would enable auto snapshots of license plates with concurrent automatic scanning against law enforcement databases, enable officer distress alerts, triggered by an officer using the company's video lapel microphone, to be automatically and silently sent to the closest patrol officers via the COPsync Network, and enable responding officers to "see" out of the distressed officer's in-vehicle camera via "video streaming" capability.

Source: Company filings and investor materials, SeeThruEquity Research

COMPETITIVE LANDSCAPE

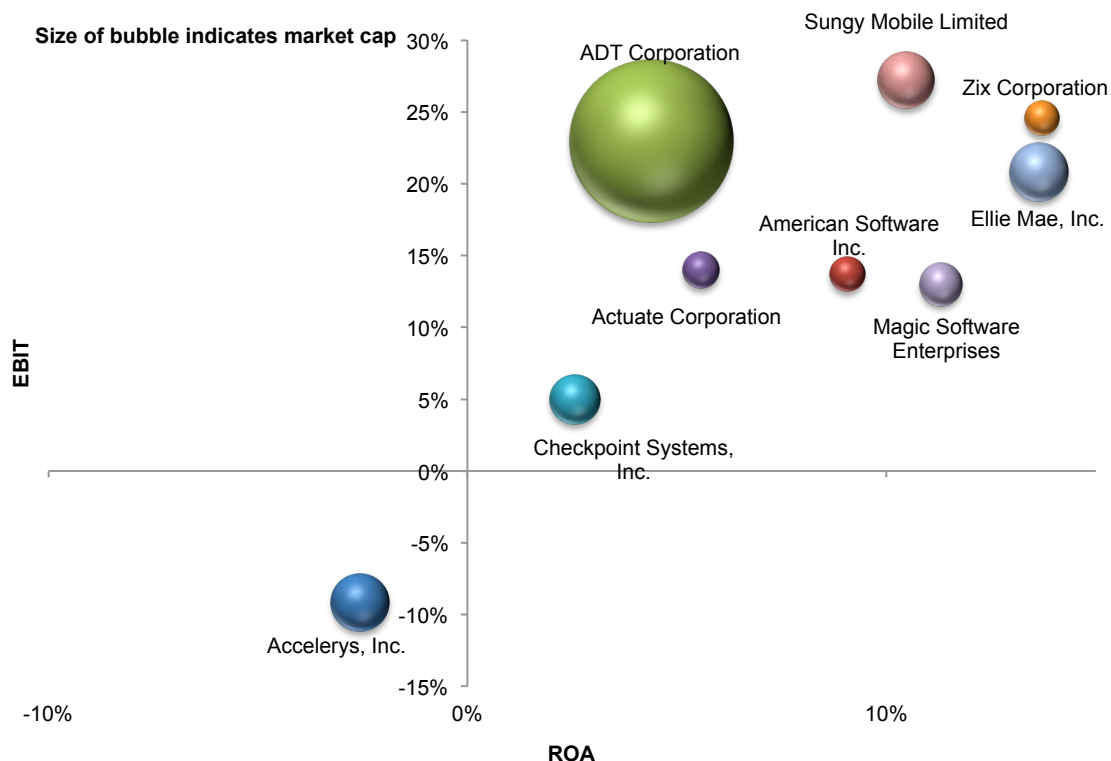
Currently, COPsync has no direct competition for its COPsync Network product. COPsync estimates that there are 2,100 vendors providing records management, jail management, court management, and computer aided dispatch technology systems to law enforcement agencies, but it has designed a “vendor neutral” product to be used in conjunction with these systems, not to replace them. While there is nothing proprietary about obtaining access to the federal and state law enforcement databases that the COPsync Network utilizes, the data being created by users of COPsync Network is proprietary and represents a significant first mover advantage for COPsync and a benefit for its current and prospective customers.

There are a number of competitors to the COPsync911 threat alert service, including calling “911,” and companies which provide panic buttons and other alarm monitoring services. COPsync seeks to differentiate itself with the numerous unique features and functionality that the COPsync911 service provides. As more law enforcement personnel in a given area utilize the COPsync Network, the COPsync911 service will become that much more valuable as well.

There are many in-vehicle law enforcement video system vendors, including Coban, Digital Ally, MobileVision, Motorola, and Watchguard Video, whose products compete with the VidTac product offering. VidTac is the only software-driven in-vehicle video system. The other vendors sell “hardware centric” video systems that use a DVR to perform the video capture, compression and encryption of the video stream. VidTac competes on price and product flexibility with these vendors, reducing hardware, replacement and file storage costs to the end users. As with COPsync911, as the COPsync Network achieves greater scale, the integration of VidTac with the network could provide a significant competitive advantage to COPsync.

Compared to the majority of the peer group, COPsync is smaller in market capitalization and it has yet to demonstrate profitability. However, an analysis of the peer group shows that EBIT margins in the 15-30% range are attainable as a company reaches larger scale. We feel that COPsync can achieve attractive EBIT and ROA results which would put it in the top end of the peer group.

Figure 2. ROA vs. EBIT– COPsync Peers



Source: Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Revenue/Drivers

COPsync reported annual revenue growth of 46.5% and 26.5% in 2013 and 2012, respectively, and its 4Q13 revenue results of \$1.5mn were a company record. COPsync has given broad guidance of \$1.2-2mn in COPsync911 sales and \$1.9mn is expected from renewing COPsync Network and COPsync 911 customers in 2014E. We have modeled in \$7.6mn in 2014E revenues, with an estimate based off of continued growth of both products as well as one major municipality in Texas signing a contract for the COPsync Network service. If this major contract win does occur, our numbers could be very conservative.

We have modeled in a 30% CAGR from 2015-2019E, and arrive at 2019E revenues of \$43.4mn. As previously described, COPsync has impressively grown revenues against the backdrop of depressed federal, state and local government spending over the past four years. While the company has penetrated 66% of Texas municipalities, COPsync still only has approximately 4000 users of the COPsync Network and it has yet to gain a contract with a major municipality. There is significant room for growth within Texas and the U.S. as a whole. Finally, COPsync often signs multi-year agreements with built in pricing increases. As more users join the system and create additional value in the product, COPsync should have no problem obtaining continued yearly pricing increases.

Margins/Expenses

COPsync reports margins by segment, and recorded 13.2% gross margins for hardware and 48.8% gross margins for software in 2013. COPsync is still growing, and does not always have the ability to purchase its hardware in sizeable quantities to maximize hardware margins. Long term, we feel that 50% and 22% hardware gross margins are attainable for COPsync's proprietary and third party hardware products, respectively. We have a blended 35% hardware gross margin rate from 2014-2019E. Additionally, COPsync has significant operating leverage on the software side of the business, and the margins from that segment should prove to be quite attractive over the longer term as the user base grows. We expect that COPsync will fully amortize its software costs by the end of 2014E, and the continued growth of renewals (at essentially no additional cost) should drive significant operating results. We have modeled in 70% software gross margins for 2015E, growing to 80% by 2019E.

COPsync mainly sells its products in Texas through its own sales force of about 10 people, many of whom have strong law enforcement connections or credentials. Outside of Texas, the company is selling through distributors and resellers. COPsync will need to make additional hires and/or increase its distribution agreements as it expands into new territories. COPsync showed excellent financial discipline in 2013, as SG&A of \$2.7mn was down 4.6% from \$2.8mn in 2012. We have modeled in \$2.8mn in SG&A spending in 2014E, but feel that COPsync will significantly bump this up in 2016E as larger expansion efforts take hold.

COPsync has also spent thinking ahead for rapid growth and has upgraded to Microsoft Cloud computing solutions for its growing IT needs. In the future, as COPsync expands the amount of users and data being generated, it will not have to spend to upgrade server and storage facilities. Much of this spending is behind COPsync, and they have guided to R&D spending being down approximately \$650k in 2014E from \$2.2mn in 2013.

COPsync had an accumulated deficit of approximately \$19mn as of December 31, 2013. We do not anticipate the company paying taxes in the near future, and have modeled in taxes commencing in 2019E at a 28% rate.

Balance Sheet & Financial Liquidity

COPsync had \$414k in cash among its \$1.6mn in assets as of December 31, 2013.

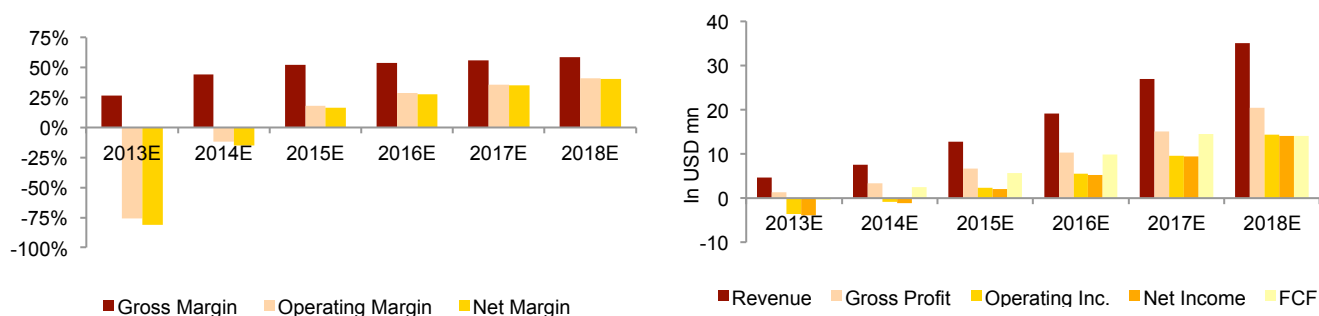
COPsync had total liabilities of \$6.5mn as of December 31, 2013. These liabilities included \$1.1mn of debt and \$3.9mn in deferred revenue. Subsequent to the end of 2013, COPsync agreed to a \$475k loan from the City of Pharr, Texas, and expects to receive an additional \$375k loan from that city in April or May of 2014. COPsync is also working to secure up to \$1.5mn in funding pursuant to an EB-5 visa program, which it hopes to close in 3Q14E. The EB-5 program is a program under which foreign nationals loan money to U.S. companies who are creating U.S. jobs. COPsync will use a portion of any proceeds from this EB-5 program to repay the bridge loan funds received from the City of Pharr, Texas. Remaining funds will be used for general working capital purposes, including the anticipated hiring of at least 30 employees in the Pharr,

Texas area over the ensuing 24 months, who will office in a recently refurbished leased facility owned by the City of Pharr.

COPsync issued a total of 100,000 shares of its Series A Preferred Stock in April 2008, which is held by the company's co-founders. Each share of Series A Preferred Stock is convertible into one share of common stock, but has voting rights on a basis of 750 votes per share. During 2009, COPsync completed a private placement of its Series B Convertible Preferred Stock and warrants to purchase its common stock. The Series B Preferred Stock accrues dividends at a rate of 7.0% per annum, payable in preference to the common stock or any other capital stock of COPsync and is convertible into an aggregate of 15 million shares of common stock.

COPsync had 175.5mn shares outstanding as of March 31, 2014. COPsync also had total warrants and stock options outstanding of 45.8mn as of December 31, 2013. COPsync has said that cash flow break-even is a strong possibility in 2014E, but that they may need to raise additional funds to cover working capital needs, depending on the timing of revenues. We have not modeled in any additional capital raises aside from the \$1.5mn EB-5 visa program agreement.

Figure 3. Key Performance Indicators of COPsync, FY13E–18E



Source: Company filings, SeeThruEquity Research

VALUATION

We have valued COPsync using two different valuation methods; discounted cash flow (“DCF”) and Peer Group Valuation. Our blended valuation, combining the two methodologies mentioned above, yields a fair value of \$0.38 per share, representing an upside of 247% from the recent price of \$0.11 as of April 17, 2014.

DCF

We expect significant revenue growth for COPsync over the next few years as both the COPsync Network and COPsync911 service expand within Texas and into new states. We project free cash flow to move from (\$424k) in 2014E to \$14.0mn in 2019E. We discounted cash flows at a weighted average cost of capital of 15.4% and assumed a terminal growth rate of 3% at the end of 2019E to arrive at an enterprise value of \$75.9mn. Adjusting for the cash balance of \$414k and debt of \$1.1mn as of December 31, 2013, we arrived at a fair value of \$0.44 per share.

Figure 4. Discounted Cash Flow Analysis

\$ '000	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
EBIT	(885)	2,330	5,499	9,622	14,301	19,246
Less: Tax	0	0	0	0	0	5,389
NOPLAT	(885)	2,330	5,499	9,622	14,301	13,857
Changes in working capital	(15)	153	159	165	171	178
Depreciation & Amortization	476	20	12	12	12	12
Capex	0	0	0	0	0	0
FCFF	(424)	2,502	5,669	9,798	14,483	14,046
Discount factor	0.90	0.78	0.68	0.59	0.51	0.44
PV of FCFF	(382)	1,954	3,836	5,744	7,356	6,182
Sum of PV of FCFF						24,689
Terminal cash flow						116,557
PV of terminal cash flow						51,296
Enterprise value						75,985
Less: Debt						1,134
Add: Cash						414
Equity value						77,533
Outstanding shares (mn)						175.0
Fair value per share (\$)						0.44
Summary conclusions		Key assumptions				
DCF FV (\$ per share)		0.44	Beta			1.5
Recent price (\$ per share)		0.11	Cost of equity			16.1%
Upside (downside)		300.0%	Cost of debt (post tax)			4.8%
WACC		15.4%	Terminal Growth Rate			3.0%

Source: SeeThruEquity Research

Figure 5. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

		WACC (%)				
Terminal growth rate (%)		14.5%	14.9%	15.4%	15.9%	16.4%
	2.00%	0.46	0.44	0.42	0.40	0.38
	2.50%	0.47	0.45	0.43	0.41	0.39
	3.00%	0.49	0.47	0.44	0.42	0.40
	3.50%	0.50	0.48	0.46	0.43	0.41
	4.00%	0.52	0.50	0.47	0.45	0.43
	4.50%	0.54	0.52	0.49	0.46	0.44

Source: SeeThruEquity Research

Peer Group Valuation

We compared COPsync with security solutions providers and application software peers ADT Corporation, Sungy Mobile Limited, Zix Corporation and Accelerys, Inc., among others, using a market multiple approach.

We arrived at a fair value range of \$0.22 to \$0.23 per share based on EV/Revenue and P/Revenue multiples of selected peers. We considered a target multiple of 3.0x for the EV/Revenue multiple and 2015E revenue of \$12.8mn to arrive at a fair value of \$0.22 per share. Similarly, we used a P/Revenue multiple of 3.2x our 2015E revenue forecast to arrive at a fair value of \$0.23 per share. COPsync currently trades at a steep discount to the peer group, even though its revenue growth is at or near the top end of the peer group range. With no truly competitive existing product and significant room for product expansion, it would not be hard to justify a peer multiple, or even premium, to the group.

Figure 6. Comparable Valuation (Data as of 04/17/14)

Company	Mkt cap (\$ mn)	EV/Revenue(x)		Price/Revenue(x)	
		FY14E	FY15E	FY14E	FY15E
Accelerys, Inc.	695	3.3x	3.0x	3.7x	3.3x
ADT Corporation	5,565	3.0x	2.9x	1.6x	1.6x
American Software Inc.	245	1.8x	N/A	2.2x	N/A
Actuate Corporation	272	1.6x	1.5x	2.2x	2.2x
Checkpoint Systems, Inc.	512	0.7x	N/A	0.7x	N/A
Ellie Mae, Inc.	710	4.3x	3.4x	4.7x	3.8x
Sungy Mobile Limited	648	7.2x	5.0x	8.3x	5.8x
Magic Software Enterprises	371	1.7x	1.6x	2.3x	2.1x
Qualys Inc.	658	5.4x	4.5x	5.1x	4.2x
Zix Corporation	241	4.0x	3.4x	4.6x	3.9x
Average		3.3x	3.2x	3.5x	3.4x
COPsync, Inc.	19	2.6x	1.5x	2.5x	1.5x
Premium (discount)		(21.6%)	(51.7%)	(29.3%)	(55.8%)

Source: Bloomberg, SeeThruEquity Research

RISK CONSIDERATIONS

Financing and dilution

COPsync ended 2013 with \$414k in cash. It has outlined plans for funding through loans with the city of Pharr, Texas and through an EB-5 financing agreement. COPsync may also need to raise additional capital in 2014 for working capital purposes. Should these financing agreements not occur, or should COPsync have to raise capital at unsatisfactory terms, existing shareholders may face dilution of their holdings. In addition, COPsync had roughly 46mn warrants and options outstanding as of December 31, 2013. If these securities are converted into common, existing shareholders would also face dilution.

Government spending

COPsync sales are predominantly derived from contracts with agencies of local governments. Its sales, and results of operations, may be adversely affected by the curtailment of these governmental agencies' use of technology, including curtailment due to governmental budget reductions. Governmental budgets available to purchase COPsync software service and products could be negatively affected by several factors, local government budget deficits, federal and state government budget deficits resulting in the curtailment of grant programs that would otherwise cover the purchase of COPsync services, current or future economic conditions, a change in spending priorities, and other related exigencies and contingencies. A significant decline in or redirection of local law enforcement expenditures in the future could result in a material decrease to sales, earnings and cash flows.

Long sales cycle

COPsync sells its services and products primarily to local government agencies and school districts. A prospective customer's decision to purchase the services or products may often involve lengthy evaluation and product qualification process. Throughout the sales cycle, COPsync anticipates often spending considerable time educating and providing information to prospective customers regarding the use and benefits of its services and products. Budget constraints and the need for multiple approvals within these organizations may also delay the purchase decision. Failure to obtain the timely required approval for a particular project or purchase decision may delay the purchase of the services or products. As a result, COPsync expects that the sales cycle for its services and products will typically exceed 180 days, depending on the availability of funding to the prospective customer. These long cycles may cause delays in any potential sale, and it may spend a large amount of time and resources on prospective customers who decide not to purchase COPsync services or products, which could materially and adversely affect its business.

Share liquidity and penny stock rule

COPsync currently trades on the OTCQB. The stock has averaged approximately 23,151 shares traded a day over the past three months. At the recent price of \$0.11, this comes out to roughly \$2,547 in daily traded volume. Getting into or out of a position in COPsync may be difficult depending on the market environment. COYN is also subject to penny stock trading rules, which may further lessen liquidity in the shares.

Management Team

Ronald A. Woessner - Chief Executive Officer

Mr. Woessner has worked in a senior executive or legal capacity at publicly-held, start-up and emerging, technology companies for 20 years, and has served as chief executive officer for COPsync since October 2010. Prior to that he served as senior vice president and general counsel for Zix Corporation (NASDAQ: ZIXI), a subscription-based, encrypted email services provider that enables healthcare and financial institutions to comply with HIPAA and GLBA. He previously served as vice president and general counsel of Amtech Corporation (NASDAQ: AMTC), a manufacturer of RFID products and services, whose electronic toll collection systems, including the Northeast's "E-Z Pass," Florida's "SunPass" and DFW's "TollTag" toll collection systems, are used throughout the U.S., and whose automatic equipment identification systems are used by railroads in 24 countries and on all habitable continents of the world. Mr. Woessner is a magna cum laude graduate of a top 20 law school, a summa cum laude graduate of Texas A&M University, obtained a director certification from the National Association of Corporate Directors (NACD) and is a certified Toastmaster by Toastmasters International.

Barry W. Wilson - Chief Financial Officer

Mr. Wilson has worked for 20 years in a variety of accounting and financial capacities at publicly-held, start-up and emerging, technology companies, and has served as chief financial officer for COPsync since November 2010. Prior to that he served as chief financial officer and treasurer as well as vice president of accounting and finance for Zix Corporation (NASDAQ: ZIXI), a subscription-based, encrypted email services provider that enables healthcare and financial institutions to comply with HIPAA and GLBA. He previously served as director of finance for Amtech Corporation (NASDAQ: AMTC), a manufacturer of RFID products and services, whose electronic toll collection systems are used throughout the U.S. and whose automatic equipment identification systems are used by railroads in 24 countries and on all habitable continents of the world. Prior to joining Amtech, Mr. Wilson held accounting and finance positions at both publicly-held and privately-owned enterprises. Mr. Wilson is a licensed certified public accountant with a degree in accounting from Point Park University, Pittsburgh, PA.

Russell D. Chaney - Cofounder and Chairman

Mr. Chaney began his law enforcement career in 1987 riding with deputies of the Comal County, Texas, Sheriff's Office and troopers with the Texas Highway Patrol. The following year, he received his Texas Peace Officer Certification from the San Antonio Law Enforcement Academy and subsequently worked for both municipal police departments and Texas constables offices. During this period, he also worked as a professional sales executive and was co-founder and chief executive officer of CARad.com, which was sold to eBay, Inc. in 2003, and continues to operate as "eBay Motors." Mr. Chaney maintains his law enforcement commission with the Comal County Constables Office, Precinct 4.

J. Shane Rapp - Cofounder and President

Mr. Rapp's public service started in 1996 as a civilian rider with various law enforcement agencies. He received his Texas Peace Officer Certification from the San Antonio Law Enforcement Academy in 1998 and later received the Texas Communications Officers and Texas Communications Officers Supervisors certifications. In 2004 Mr. Rapp was elected constable of Comal County, Texas, Precinct 4, and continues to hold that position today. During his law enforcement career, Mr. Rapp has worked in various corporate and sales executive capacities and was co-founder of CARad, com, which was sold to eBay, Inc. in 2003, and continues to operate as "eBay Motors."

Top Institutional and 13F Filer Ownership

Shareholder	Number of Shares	Percent of Shares Outstanding
Major Holders & Key Insiders	Ow ned	
Russell D. Chaney	45,994,475	25.8%
J. Shane Rapp	15,993,259	9.0%
Robert Harris	9,020,834	5.0%
Ronald Woessner	7,945,977	4.4%
Joel Hochberg	5,772,915	3%
Total	84,909,460	47%

* Percentages are calculated based on 177,760,478 shares of common stock outstanding as of March 31, 2014

FINANCIAL SUMMARY

Figure 7. Income Statement

Figures in \$mn unless specified	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	2.5	3.2	4.7	7.6	12.8	19.2
YoY growth		26.5%	46.5%	60.8%	68.4%	49.9%
Cost of sales	2.3	2.3	3.5	4.3	6.1	8.9
Gross Profit	0.3	0.9	1.3	3.3	6.7	10.3
Margin	10.7%	27.4%	26.6%	43.9%	52.2%	53.8%
Operating expenses	3.0	5.0	4.8	4.2	4.4	4.8
EBIT	(2.7)	(4.2)	(3.6)	(0.9)	2.3	5.5
Margin	(105.3%)	(128.7%)	(75.9%)	(11.6%)	18.2%	28.7%
EBITDA	(2.5)	(3.7)	(3.1)	(0.4)	2.3	5.5
Margin	(97.6%)	(114.1%)	(65.9%)	(5.4%)	18.4%	28.7%
Other income/ (expense)	0.1	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Profit before tax	(2.6)	(4.2)	(3.6)	(0.9)	2.3	5.5
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net income	(2.8)	(4.3)	(3.8)	(1.1)	2.1	5.3
Margin	(111.1%)	(133.0%)	NM	(15.0%)	16.2%	27.5%
EPS (per share)	(0.02)	(0.03)	(0.02)	(0.01)	0.01	0.03

Source: SeeThruEquity Research

Figure 8. Balance Sheet

Figures in \$mn, unless specified	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Current assets	1.2	0.7	1.0	2.0	4.6	7.9
Intangibles	1.3	0.9	0.4	0.0	0.0	0.0
Other assets	0.1	0.2	0.1	0.1	0.1	0.1
Total assets	2.7	1.7	1.6	2.1	4.7	8.0
Current liabilities	1.6	2.6	4.7	6.5	6.6	4.9
Other liabilities	1.2	1.1	1.8	1.8	1.8	1.1
Shareholders' equity	(0.2)	(2.0)	(4.9)	(6.1)	(3.6)	2.0
Total liab and shareholder equity	2.7	1.7	1.6	2.1	4.7	8.0

Source: SeeThruEquity Research

Figure 9. Cash Flow Statement

Figures in \$mn, unless specified	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Cash from operating activities	(1.5)	(2.7)	(0.6)	(0.3)	2.7	5.9
Cash from investing activities	0.0	(0.0)	(0.0)	0.0	0.0	0.0
Cash from financing activities	2.3	1.8	0.9	0.9	(0.0)	(2.6)
Net inc/(dec) in cash	0.8	(0.9)	0.2	0.6	2.6	3.2
Cash at beginning of the year	0.2	1.1	0.2	0.4	1.0	3.7
Cash at the end of the year	1.1	0.2	0.4	1.0	3.7	6.9

Source: SeeThruEquity Research

About COPsync, Inc.

COPsync, Inc. operates the largest law enforcement mobile data information system and interoperability network in the U.S. The COPsync Network enables officers to report and share actionable, mission-critical data in real-time and collect for outstanding misdemeanor warrants in real-time at the point of incident. Officers are also able to obtain instant access to local, state and federal law enforcement databases. The Network's companion COPsync911 system enables campuses, government buildings, energy, telecommunications and other potentially at-risk facilities to automatically and silently send threat alerts directly to local law enforcement officers in their patrol cars in the event of crisis, thereby protecting schools, school children and others. The COPsync Network also eliminates manual processes and increases officer productivity by enabling officers to electronically write tickets, accident reports, DUI forms, arrest forms and incident and offense reports. The COPsync Network saves lives, reduces unsolved crimes and assists in apprehending criminals and interdicting criminal behavior -- through such features as a nationwide officer safety alert system, GPS/auto vehicle location and distance-based alerts for crimes in progress, such as school crisis situations, child abductions, bank robberies and police pursuits. The company also sells VidTac(R), an in-vehicle, software-driven video system for law enforcement.

For more information, visit www.copsync.com and www.copsync911.com.



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