PAR TECHNOLOGY CORP
Form 10-K
March 14, 2014

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2013.

OR

o 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 1-9720

PAR TECHNOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	16-1434688
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

PAR Technology Park 8383 Seneca Turnpike New Hartford, New York	13413-4991
(Address of principal executive offices)	(Zip Code)

(315) 738-0600
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.02 par value	New York Stock Exchange

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

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 o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x No o

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. o

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 company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o	Accelerated Filer o	Non Accelerated Filer o	Smaller reporting company x
		(Do not check if a smaller reporting company)	

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

As of June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of voting and non-voting common stock held by non-affiliates of the registrant was approximately $34,498,731 based upon the closing price of the Company's common stock.

The number of shares outstanding of registrant's common stock, as of February 28, 2014 15,752,566 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement in connection with its 2014 annual meeting of stockholders are incorporated by reference into Part III.

PAR TECHNOLOGY CORPORATION

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"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

This document contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Any statements in this document that do not describe historical facts are forward-looking statements. Forward-looking statements in this document (including forward-looking statements regarding the continued health of segments of the hospitality industry, future information technology outsourcing opportunities, an expected increase or decrease in contract funding by the U.S. Government, the impact of current world events on our results of operations, the effects of inflation on our margins, and the effects of interest rate and foreign currency fluctuations on our results of operations) are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When we use words such as "intend," "anticipate," "believe," "estimate," "plan," "will," or "expect", we are making forward-looking statements. We believe the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you these assumptions and expectations will prove to have been correct or we will take any action we presently may be planning. We have disclosed certain important factors that could cause our actual future results to differ materially from our current expectation, including: a decline in the volume of purchases made by one or a group of our major customers; risks in technology development and commercialization; risks of downturns in economic conditions generally, and in the quick-service sector of the hospitality market specifically; risks associated with government contracts; risks associated with competition and competitive pricing pressures; and risks related to foreign operations. Forward-looking statements made in connection with this report are necessarily qualified by these factors. We are not undertaking to update or revise publicly any forward-looking statement if we obtain new information or upon the occurrence of future events or otherwise.

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PAR TECHNOLOGY CORPORATION

PART I

Item 1: Business

PAR Technology Corporation (PAR or the Company) has operations in two distinct business segments: Hospitality and Government.

PAR's Hospitality business segment, representing approximately 63% of consolidated revenue, provides technology solutions, including hardware, software and a range of support services, to businesses and organizations within the global hospitality industry. The Company continues to be a leading provider of hospitality management technology systems to restaurants (the Quick Service, Fast Casual and Table Service categories make up our Restaurant business) with over 50,000 systems installed in over 110 countries. In addition, the Company is expanding its footprint within the retail marketplace with its food safety and task management solutions. These two technology solutions are conducted collectively through the Company's Restaurant and Retail business. The Company's Hotel business provides guest-centric property management solutions to hotels, resorts, spas, casinos, and other hospitality properties, worldwide.

PAR's Government business, representing approximately 37% of consolidated revenue, provides a range of technical services for the U.S. Department of Defense and other federal agencies. This business is dedicated to serving Intelligence, Surveillance and Reconnaissance (ISR) needs specializing in the development of advanced signal and image processing and management systems with a focus on geospatial intelligence, geographic information systems, and command and control applications. Additionally, this business provides information technology, communications, and related services to the U.S. Department of Defense, providing comprehensive operational support worldwide.

Information concerning the Company's industry segments for the two years ended December 31, 2013 is set forth in Note 11 "Segments and Related Information" in the Notes to the Consolidated Financial Statements.

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PAR’s corporate headquarters are located at PAR Technology Park, 8383 Seneca Turnpike, New Hartford, NY 13413-4991, and our telephone number is (315) 738-0600. We maintain significant facilities for our Hospitality segment in our New Hartford headquarters, as well as Boca Raton, FL, Boulder, CO, Las Vegas, NV, Shanghai, People’s Republic of China, Stowe, VT, and Toronto, Canada. We maintain Hospitality sales offices worldwide. The Company’s Government business is headquartered in Rome, NY. Our Government business has employees worldwide in fulfillment of our contract-based support services.

The Company’s common stock is traded on the New York Stock Exchange under the symbol “PAR”. Through PAR’s website (our website address is http://www.partech.com), our Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments thereto are available to interested parties, free of charge. Information contained on our website is not part of this Annual Report on Form 10-K.

Unless the context otherwise requires, the term "PAR" or "Company" as used herein, means PAR Technology Corporation and its wholly-owned subsidiaries.

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Hospitality Segment

PAR provides information technology solutions to three markets within its Hospitality Segment: Restaurants, Retail and Hotels (the Hotel market also includes Resorts and Spas). PAR's solutions for the Restaurant market combine software applications, hardware platforms and installation and lifecycle support services. PAR's hardware offerings for the Restaurant market include Point-of-Sale (POS) terminals, kitchen systems utilizing printers and/or video monitors, and a range of food safety monitoring tools. PAR's software offerings for the Restaurant market include front-of-store POS software applications, operations management software applications (known as Back Office), and enterprise software applications for content management and business intelligence.

As a leading vendor to the Restaurant market, PAR has developed committed, long-term relationships with the industry's three largest organizations, McDonald's Corporation, Yum! Brands, Inc., and the SUBWAY® franchisees of Doctor's Associates Inc. McDonald's® has over 35,000 restaurants in more than 100 countries, and PAR has been an approved provider of restaurant technology systems and support services to their organization since 1979. Yum! Brands®, which includes Taco Bell®, KFC®, and Pizza Hut™, has been a PAR customer since 1983. Yum! Brands have over 40,000 restaurants in more than 125 countries, and PAR continues to be a major supplier of management technology systems to chains within the Yum! Brands portfolio. The Company continues to expand our installed base of hardware technology and services with SUBWAY, which has more than 41,000 restaurants in over 100 countries. Other significant hospitality chains for which PAR is the POS vendor of choice include the Baskin-Robbins® unit of Dunkin' Brands Group, Inc., the Hardee's® and Carl's Jr.® units of CKE Restaurants, Inc., the Carnival Cruise Lines® unit of Carnival Corporation & plc, Catalina Restaurant Group Inc., Legal Sea Foods, LLC, and franchisees of these organizations.

Within the growing Retail market, PAR has developed an intelligent checklist solution for food safety measurement and task management automation. During the year, the Company announced another major customer to deploy our intelligent checklist and task management solution within its stores. Wegmans Food Markets, Inc., and its 83 store locations, joined the 4,300 domestic Wal-Mart Stores Inc., locations deployed in 2012, representing two signature brands that selected PAR as its vendor of choice for their food safety and task management requirements.

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With respect to the Hotel market, PAR is a leading global provider of software solutions for a variety of property types including city-center hotels, destination spa and golf resorts, cruise ships, and casino hotels. High profile customers utilizing PAR's solutions include The Old Course Hotel at St. Andrews, a unit of Kohler Company, Pebble Beach Resorts® of the Pebble Beach Company, and Gleneagles Hotel® unit of Diageo plc. Large hotel chains utilizing one or more of PAR's software solution offerings include Accor SA, Four Seasons Hotels Limited, the Fairmont® and Swissotel® units of FRHI Holdings Limited, Hilton Worldwide, Inc., Kempinski AG, Mandarin Oriental Hotel Group, Marriott International, Inc. and its Ritz-Carlton subsidiary, The Maybourne Group, and Starwood Hotels & Resorts Worldwide, Inc.

Products

The Company offers its hardware, software and services as an integrated solution or unbundled, on an individual basis. PAR's hardware offerings, particularly our POS terminals, are well regarded by customers for their broad functionality, reliability, and high quality. The Company frequently sells hardware in combination with services, thereby delivering maximum system performance on a cost-effective basis. PAR emphasizes the operational and economic value of a bundled, integrated solution, combining hardware, software and services, offering customers a comprehensive solution capable of not only enabling efficient restaurant operation, while also providing operational and marketing insights.

Hardware

PAR's EverServ® family of hardware platforms are designed for harsh hospitality environments, to be durable, scalable and easily integrated - offering customers' competitive performance at a cost-conscious price. The Company's hardware platforms, compatible with popular operating systems, support a distributed processing environment and are suitable for a broad range of use and functions within the markets served. PAR's open architecture POS terminals are optimized to host our EverServ POS software applications, as well as most third-party POS applications, and are compatible with many peripheral devices, including various customer peripherals. We partner with numerous vendors of complementary in-store peripherals, from cash drawers, card readers and printers to kitchen video systems, allowing us to provide a complete solution coordinated and delivered by one vendor.

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PAR currently offers a range of POS hardware system designs and capabilities, designed with the intent to meet the needs of our customers, regardless of the restaurant concept, the size of the organization or the complexity of its requirements. PAR's hardware terminal offerings are primarily comprised of four POS product lines: EverServ 500, EverServ 7000 Series, EverServ 6000 Series and EverServ 2000.

PAR's newest hardware offering, the EverServ 500 platform, is built with the same rugged durability PAR is known for, but in a compact design that delivers the performance and reliability of our legacy offerings. Its small footprint is ideal for installations where space is at a premium. The design offers a spill resistant, high-impact enclosure that is built to withstand tough restaurant and retail conditions with continuous operation. The EverServ 500's fan-less design is quiet, offers low power consumption and minimizes maintenance.

The patented EverServ 7000 series is PAR's flagship POS platform, designed to offer PAR's ultimate combination of performance, style, ease of service, remote management, flexibility and modularity. The EverServ 7000 series hardware is built to perform in harsh environments involving rough treatment and liquid spills. The high performance next-gen architecture of the series supports demanding applications and delivers the speed needed to improve customer throughput.

The patented EverServ 6000 platform has been PAR's high performance, rugged and reliable POS terminal for the past several years and been deployed globally across some of the world's largest restaurant chains. By design, the Everserv 6000 is simple to service, reducing service times and minimizing business interruption. The EverServ 6000 POS terminal leverages a common computing platform across multiple configurations to simplify IT operations, deployment and support, resulting in lower costs. In addition, its energy-saving features and rugged design contribute to a low total cost of ownership and a long product lifespan.

The more compact EverServ 2000 platform was designed for value conscious customers and for environments where space is a premium. The Everserv 2000 includes the fan-less design and its small footprint is appropriate for locations seeking reduced space requirements. The design offers a spill resistant, high-impact enclosure that is built to withstand tough restaurant and retail conditions with continuous operation.

With PAR's growing presence within the Retail market, PAR developed its temperature measurement device to provide a full technology solution supporting food safety compliance and task management automation. The device can operate as a stand-alone hardware platform or as integrated solution with the Company's Everserv Surecheck® offering.

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Software: Restaurant Market

PAR's restaurant software offerings were designed to meet the requirements of large and small operators, franchise and enterprise alike in the three dominant restaurant categories: Quick Serve Restaurants (QSR), Fast Casual Restaurants (FC), and Table Service Restaurants (TSR). Each of these restaurant categories has distinct operating characteristics and service delivery requirements and the PAR's EverServ® family of software offerings, were designed with the intent of, enabling customers to configure their technology systems to meet their order entry, food preparation, inventory, and workforce management needs, while capturing all pertinent POS and BOH transaction data at each location and delivering valuable insight throughout the enterprise.

In addition to POS software, PAR offers a number of complementary restaurant applications for the enterprise customer. EverServ Operations Reporting is a Web-based enterprise reporting solution that consolidates data from all restaurant locations, and is offered either as an on-premises installation or as a Software-as-a-Service (SaaS). Designed for corporate, field, and site managers, this decision-making solution provides visibility into every restaurant location via a dashboard displaying customer-defined financials, sales analysis, marketing, inventory, and workforce variables. EverServ Operations reporting was also designed to be capable of integration into customers' business applications such as financials, payroll, and supply-chain systems. PAR also offers tools for forecasting, labor scheduling, and inventory management.

Software: Retail Market

The EverServ SureCheck® software platform provides food safety monitoring and employee task management functionality through the combination of a cloud-based enterprise server application, a PDA-based mobile application and an integrated temperature measuring device. This solution is effective for managing Hazard Analysis & Critical Control Points (HACCP) inspection programs for retail and food service organizations, and automates the monitoring of quality risk factors while dramatically lowering the potential for human error. The SureCheck platform was also designed to help hospitality and retail operators efficiently complete and monitor the compliance of employee tasks while providing guidance on abnormal checklist conditions, using configurable, automated alerts when tasks are behind schedule or out of compliance. The data captured through this solution is used to manage policy compliance and oversight, loss prevention, safety, merchandising, and other audits unique to the organization.

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Software: Hotel (including Resorts and Spas) Market

For the Hotel/Resort/Spa market, the Company's guest-centric property management software provides a series of fully integrated modules that manage all aspects of the guest experience, as well as consolidating guest information and history across the operation into a single database. PAR develops, sells and supports the SMS|Host® Hospitality Management System, a leading solution in the market for the luxury and resort segment of the global hospitality industry. PAR's SMS|Host platform remains a market leader because of its robust guest-centric functionality, allowing hotel staff to coordinate, cross-sell, and deliver personalized guest services across all various services of large, complex resort operations. The flexibility of the SMS|Host platform, with numerous seamlessly integrated, guest-centric modules, provides the tools our hotel customers need to personalize service, anticipate guest needs, and consistently exceed guest expectations.

With PAR's continued competitive focus and position as a leader in the high-end property market segment, the Company developed a highly flexible, highly scalable cloud based software solution that increased PAR's addressable market to drive future revenue growth. The ATRIO® platform of solutions was designed as a significant redefinition of the functionality and delivery of hospitality management software. While PAR continues to sell and support its SMS|Host product line, it expects ATRIO, with its innovative capabilities and broader market application, to become a source of greater revenue growth for PAR in future periods.

With regards to the Spa market segment, PAR provides its SpaSoft® product, the industry's leading Spa Management System. Twenty-two of the top thirty five star spas in the world use SpaSoft to support their operations. The Company designed SpaSoft to satisfy the unique needs of resort spas, day spas, and medi-spas. SpaSoft's unique booking engine, advanced resource inventory, yield management module, scheduling, management and reporting tools assist in the total management of sophisticated hotel/resort spas and day spas. SpaSoft specifically addresses the needs of the spa industry, enabling spa staff to provide the individualized, impeccable guest service that their most important clients desire and expect.

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Services

PAR offers customer support services to its Hospitality customers. The Company believes its ability to offer direct installation, maintenance, and support services are one of its key differentiators within its markets. PAR works closely with its customers to identify and address the latest hospitality technology requirements by creating interfaces to equipment, including innovations such as automated cooking and drink-dispensing devices, customer-activated terminals and order display units located inside and outside of the customer's premises. PAR provides systems integration expertise to interface specialized components, such as video monitors, coin dispensers and non-volatile memory for journalizing transaction data, as is required in some international applications.

PAR employs experienced individuals with diverse hospitality backgrounds in each of its primary markets. The Company's personnel continuously evaluate new technologies and adopt those that allow PAR to provide significant improvements in customers' day-to-day systems. From hand-held wireless devices to advances in internet performance, the technical staff is available for consultation on a wide variety of topics including network infrastructures, system functionality, operating system platforms, and hardware expandability. In addition, the Company has secured strategic partnerships with third-party organizations to offer a variety of credit, debit and gift card payment options.

Installation and Training

In the United States, Canada, Europe, the Middle East, Australia, and Asia, PAR personnel provide software configuration, installation, training, and integration services as a normal part of the software or equipment purchase agreement. In certain areas of North and South America, Europe, and Asia, we provide these installation and training services through PAR certified partners. PAR is also staffed to provide complete application training for a site's staff as well as technical instruction for customers' information systems personnel.

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Maintenance and Service

PAR offers a wide range of maintenance and support services as part of its total solution for the hospitality markets we serve. In North America, the Company provides comprehensive maintenance and installation services for its software, hardware and systems, as well as those of third parties, utilizing PAR-staffed, round-the-clock, central telephone customer support and diagnostic service centers in Boulder, CO, and Las Vegas, NV. The Company also has direct service capabilities in Australia and Asia.

PAR maintains a field service network, consisting of over 100 locations, offering on-site service and repair, as well as depot repair and overnight unit replacements. At the time a hospitality technology system is installed, PAR trains customer employees and managers to ensure efficient and effective use of the system.

PAR’s service organization utilizes a suite of software applications that allows PAR to offer value to its customers through the utilization of its extensive and growing knowledge base to diagnose and resolve customer-service issues. This also enables PAR to compile the kind of in-depth information it needs to identify trends and opportunities. If an issue arises with our products, PAR’s customer service management software allows a service technician to diagnose the problem remotely, thereby reducing in many cases the on-site service calls. PAR’s service organization is further enabled by a sophisticated customer relationship management system that allows our call center personnel to maintain a profile on each customer’s background, hardware and software details, client service history, and a problem-resolution database.

Sales and Marketing

Within the Hospitality Segment, PAR has separate sales organizations and channels targeting the markets we serve.

With respect to the Restaurant market, the Company employs a direct sales force in several sales groups concentrating on both large chain corporate customers and their franchisees. Sales efforts also are directed toward franchisees of large chains for which the Company is not a selected corporate vendor. The Company utilizes an International Sales Group that markets to major customers with global locations and to international chains without a presence in the United States.

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The Company’s Indirect Sales Channel targets distributors, sales representatives, and value-added resellers serving the independent restaurant sector and non-food service markets such as retail, convenience, amusement parks, movie theaters, cruise lines, spas and other ticketing and entertainment venues.

Sales in the Hotel market are coordinated by five sales groups. The Domestic Sales Group targets independent, business class and luxury hotels, resorts and spas in the United States, Canada and the Caribbean, while the International Sales Group targets independent hotels and resorts outside of North America. The Major Accounts Sales Group works with high profile corporate and chain clients. The Company’s Installed Accounts Sales Group works solely with clients who have already installed the SMS|Host product suite. The Business Development group focuses on proactive identification of an initial penetration into new business channels for the ATRIO, SMS|Host and SpaSoft product lines worldwide.

Competition

The markets in which we operate are highly competitive. Important competitive variables in the hospitality market include functionality, reliability, quality, pricing, service and support. In the Restaurant market, we believe our competitive advantages include our focus on an integrated technology solution offering including ruggedized hardware, advanced development capabilities, extensive domain knowledge and expertise, excellent product reliability, a direct sales force organization, world class support and quick service response. In the Hotel market, we believe our competitive advantages include our extensive domain knowledge, long-standing industry leadership, the guest-centric orientation of our software, and our high level of customer support. Most of our significant customers have approved several suppliers offering some form of sophisticated hospitality technology system similar to that of the Company. Major competitors include Micros Systems, Inc., NCR Corporation and Panasonic Corporation.

Backlog

Due to the nature of the hospitality business, backlog is not significant at any point in time. The Hospitality segment orders are generally of a short-term nature and are usually booked and shipped in less than 12 months.

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Research and Development

The highly technical nature of the Company's hospitality products requires a significant and continuous research and development effort. Ongoing product research and quality development efforts are an integral part of all activities within the Company. Functional and technical enhancements are actively being made to our products to increase customer satisfaction and maintain the high caliber of PAR's software. Research and development expenses were approximately $15.6 million in 2013 and $13.7 million in 2012. The Company capitalizes certain software costs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 985. See Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements included in Part IV, Item 15 for further discussion.

Manufacturing and Suppliers

The Company sources and/or assembles some of its products from standard electronic components, fabricated parts such as printed circuit boards, and mechanical components. Many assemblies and components are manufactured by third parties to our specifications. PAR depends on outside suppliers for the continued availability of its assemblies and components. Although most items are generally available from a number of different suppliers, PAR purchases certain final assemblies and components from single sources. Items purchased from single sources include certain POS devices, peripherals, custom molded and tooled components, and electronic assemblies and components. If such a supplier should cease to supply an item, we believe new sources could be found to provide the components. However, added cost and manufacturing delays could result and adversely affect our performance. The Company has not experienced significant delays of this nature in the past, but there can be no assurance that delays in delivery due to supply shortages will not occur in the future.

Intellectual Property

The Company owns or has rights to certain patents, copyrights and trademarks. PAR relies upon non-disclosure agreements, license agreements and applicable domestic and foreign patent, copyright and trademark laws for protection of our intellectual property. To the extent such protective measures are unsuccessful, or the Company need to enter into protracted litigation to enforce such rights, the Company's business could be adversely impacted. Similarly, there is no assurance that the Company's products will not become the subject of a third-party claim of infringement or misappropriation. To the extent such claims result in costly litigation or force the Company to enter into royalty or license agreements, rather than enter into a prolonged dispute, our performance could be adversely impacted. The Company also licenses certain third-party software with its products. While PAR maintains strong relationships with our licensors, there is no assurance such relationships will continue or that the licenses will be continued under fees and terms acceptable to the Company.

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Government Segment

The Company's Government segment provides command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) support to U.S. Department of Defense and other federal agencies. In support of this objective, the Company delivers advanced technology in geospatial intelligence, geographic information systems, and command and control applications. These offerings support the entire technology lifecycle to include requirements analysis, design specification, development, implementation, installation, test and evaluation.

Additionally, PAR provides communication and information technology support. The Company's technical services support satellite operations and communications, battlefield networks, the global information grid, and various other information technology requirements ranging from advanced systems to basic help desk support. PAR supports the U.S. Navy, the U.S. Army, the U.S. Air Force and other federal agencies with operations worldwide.

PAR pursues business in four service areas:

Intelligence, Surveillance and Reconnaissance (ISR): The Company provides a variety of geospatial intelligence solutions including full motion video, geospatial information assurance, raster imagery, and light detection and ranging (LiDAR). In depth expertise in these domains provides government customers and large systems integrators with key technologies supporting a range of applications from strategic enterprise systems to tactical individual users. Furthermore, PAR has developed a number of products relative to these advanced technologies and provides integration and training support.

Systems Engineering & Evaluation: The Company integrates and tests Electro-Optical (EO), Infrared (IR), Radar, and multi/hyper-spectral sensor systems for a broad range of government and industry surveillance applications. PAR developed the Multi-mission Advanced Sensor System (MASS), which assists with counter-terrorism, first responder, environmental, and drug enforcement applications. In addition, the Company designs and integrates radar sensor systems including experimentation, demonstration, and test support.

Communications Systems Support: The Company provides a wide range of technical and support services to sustain mission critical components of the Department of Defense Global Information Grid (GIG). These services include continuous operations, system enhancements and maintenance of very low frequency (VLF), high frequency (HF) and very high frequency (VHF) radio transmitter/receiver facilities, and extremely high frequency (EHF) and super high frequency (SHF) satellite communication heavy earth terminal facilities. These Department of Defense communications systems services are provided at customer locations in and outside of the continental United States. The various facilities, operating 24 x 7, are integral to the command and control of the nation's air, land and naval forces and those of United States coalition allies.

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Information Systems: The Company provides technical expertise to support the government's information management systems, primarily net-centric information technology services in support of Department of Defense customers. This on-site support includes infrastructure sustainment, configuration management, system staging, information assurance and network security tasks.

Products

Although a minor part of the Company's Government business, PAR markets a software product line built on PAR's background and expertise in both Federal government and commercial video standards and visualization products. The centerpiece of the PAR software is Gv2F™, a software toolkit for developers seeking to integrate full-motion video (FMV) into their geospatial software products. The toolkit provides robust Application Programming Interfaces (APIs) and is fully compliant with commercial and DoD transport stream and meta-data conventions. Additional software in the Gv product line provide tools for visualizing and manipulating motion and still imagery files.

Government Contracts

The Company performs work for U.S. Government agencies under firm fixed-price, cost-plus-fixed-fee, and time-and-material contracts. The majority of these contracts have a period of performance of one to five years. There are several risks associated with Government contracting. For instance, contracts may be reduced in size, scope and value, as well as modified, delayed and/or cancelled depending upon the Government's requests, budgets, policies and/or changes in regulations. Contracts can also be terminated for the convenience of the Government at any time the Government believes that such termination would be in its best interests. In this circumstance, the Company is entitled to receive payments for its allowable costs and, in general, a proportionate share of its fee or profit for the work actually performed. The Company may also perform work prior to formal authorization or prior to adjustment of the contract price for increased work scope, change orders and other funding adjustments. In this situation, the Company is performing the work under our own risk and would be responsible for any costs incurred during this time. Additionally, the Defense Contract Audit Agency regularly audits the financial records of the Company. Such audits can result in adjustments to contract costs and fees. Audits have been completed through the Company's fiscal year 2011 and have not resulted in any material adjustments.

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Marketing and Competition

Contracts are obtained principally through competitive proposals in response to solicitations from government organizations and prime contractors. In addition, the Company sometimes obtains contracts by submitting unsolicited proposals. Although the Company believes it is well positioned in its business areas, competition for Government contracts is intense. Many of the Company's competitors are major corporations, or subsidiaries thereof, that are significantly larger and have substantially greater financial resources. The Company also competes with many smaller companies, many of which are designated by the Government for preferential "set aside" treatment, that target particular segments of the government contract market. The principal competitive factors are past performance, the ability to perform the statement of work, price, technological capabilities, management capabilities and service. Many of the Company's Department of Defense customers are now migrating to commercial software standards, applications, and solutions.

Backlog

The value of existing Government contracts at December 31, 2013, net of amounts relating to work performed to that date was approximately $95.6 million, of which $40.9 million was funded. The value of existing Government contracts at December 31, 2012, net of amounts relating to work performed to that date was approximately $139.5 million, of which $52.7 million was funded. Funded amounts represent those amounts committed under contract by Government agencies and prime contractors. The December 31, 2013 Government contract backlog of $95.6 million represents firm, existing contracts. Of this backlog amount, approximately $60.9 million is expected to be completed in calendar year 2014, as funding is committed.

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Employees

As of December 31, 2013, the Company had 1,301 employees, approximately 56% of whom were engaged in the Company's Hospitality segment, 40% of whom were in the Government segment, and 4% of whom were corporate employees.

Due to the highly technical nature of the Company's business, the Company's future can be significantly influenced by its ability to attract and retain its technical staff. The Company believes it has and will be able to continue to fulfill its near-term needs for technical staff.

Approximately 11% of the Company's employees are covered by collective bargaining agreements. The Company considers its employee relations to be good.

Exchange Certifications

The certification of the Chief Executive Officer of PAR required by Section 303A.12(a) of the New York Stock Exchange (NYSE) Listed Company Manual, relating to PAR's compliance with the NYSE's corporate governance listing standards, was submitted to the NYSE on June 26, 2013 with no qualifications.

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Item 1A: Risk Factors

The Company operates in a dynamic and rapidly changing environment involving numerous risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that could have a material adverse effect on our business, financial condition, results of operations and the market price of our common stock, and could cause our actual results to differ materially from those expressed or implied in our forward-looking statements.

OUR FUTURE OPERATING RESULTS ARE DIFFICULT TO PREDICT AND ARE SUBJECT TO FLUCTUATIONS.

Our future operating results, including revenues, gross margins, operating expenses and net income (loss), have fluctuated on a quarterly and annual basis, are difficult to predict, and may be materially affected by a number of factors, many of which are beyond our control, including:

- the effects of adverse macroeconomic conditions in the United States and international markets, especially in light of the continued challenges in global credit and financial markets;
- changes in customer demand for our products;
- the timing of our new product announcements or introductions, as well as those by our competitors;
- the level of demand and purchase orders from our customers, and our ability to adjust to changes in demand and purchase order patterns;
- the ability of our third party suppliers, subcontractors and manufactures to supply us with sufficient quantities of high quality products or components, on a timely basis;
- the effectiveness of our efforts to reduce product costs and manage operating expenses;
- the ability to hire, retain and motivate qualified employees to meet the demands of our customers;
- intellectual property disputes;
- potential significant litigation-related costs;
- costs related to compliance with increasing worldwide environmental and other regulations; and
- the effects of public health emergencies, natural disasters, security risk, terrorist activities, international conflicts and other events beyond our control.

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As a result of these and other factors, there can be no assurance that the Company will not experience significant fluctuations in future operating results on a quarterly or annual basis. In addition, if our operating results do not meet the expectations of investors, the market price of our common stock may decline.

OUR STOCK PRICE HAS BEEN VOLATILE AND MAY FLUCTUATE IN THE FUTURE.

The trading price of our common stock has and may continue to fluctuate significantly. Such fluctuations may be influenced by many factors, including:

· the volatility of the financial markets;

· uncertainty regarding the prospects of domestic and foreign economies;

· uncertainty regarding domestic and international political conditions, including tax policies;

· our performance and prospects;

· the performance and prospects of our major customers;

· investor perception of our company and the industry in which we operate;

· the limited availability of earnings estimates and supporting research by investment analysts;

· the liquidity of the market for our common stock; and

· the concentration of beneficial ownership of our common stock by Dr. John W. Sammon, Director and Chairman Emeritus of PAR's Board of Directors.

Public stock markets have recently experienced price and trading volume volatility. This volatility significantly affected the market prices of securities of many technology companies and the return of such volatility could result in broad market fluctuations that could materially and adversely affect the market price of our common stock for indefinite periods. In addition, fluctuations in our stock price, volume of shares traded, and changes in our trading multiples may make our stock attractive to certain categories of investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction.

A DECLINE IN THE VOLUME OF PURCHASES MADE BY ANY ONE OF THE COMPANY'S MAJOR CUSTOMERS WOULD MATERIALLY ADVERSELY AFFECT OUR BUSINESS.

A small number of related customers have historically accounted for a majority of the Company's net revenues in any given fiscal period. For each of the fiscal years ended December 31, 2013 and 2012, aggregate sales to our top two Hospitality segment customers, McDonald's Corporation and Yum! Brands, Inc. amounted to 33% and 35% of total revenues, respectively. Most of the Company's customers are not obligated to provide us with any minimum level of future purchases or with binding forecasts of product purchases for any future period. In addition, major customers may elect to delay or otherwise change the timing of orders in a manner that could adversely affect the Company's quarterly and annual results of operations. There can be no assurance our current customers will continue to place orders with us, or we will be able to obtain orders from new customers.

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AN INABILITY TO PRODUCE NEW PRODUCTS THAT KEEP PACE WITH TECHNOLOGICAL DEVELOPMENTS AND CHANGING MARKET CONDITIONS COULD RESULT IN A LOSS OF MARKET SHARE.

The products we sell are subject to rapid and continual changes in technology. Our competitors offer products that have an increasingly wider range of features and capabilities. We believe that in order to compete effectively, we must provide systems incorporating new technologies at competitive prices. There can be no assurance we will be able to continue funding research and development at levels sufficient to enhance our current product offerings, or the Company will be able to develop and introduce on a timely basis, new products that keep pace with technological developments and emerging industry standards and address the evolving needs of customers. There also can be no assurance we will not experience difficulties that will result in delaying or preventing the successful development, introduction and marketing of new products in our existing markets, or our new products and product enhancements will adequately meet the requirements of the marketplace or achieve any significant degree of market acceptance. Likewise, there can be no assurance as to the acceptance of our products in new markets, nor can there be any assurance as to the success of our penetration of these markets, nor to the revenue or profit margins realized by the Company with respect to these products. If any of our competitors were to introduce superior software products at competitive prices, or if our software products no longer meet the needs of the marketplace due to technological developments and emerging industry standards, our software products may no longer retain any significant market share.

WE GENERATE MUCH OF OUR REVENUE FROM THE HOSPITALITY INDUSTRY AND THEREFORE ARE SUBJECT TO DECREASED REVENUES IN THE EVENT OF A DOWNTURN IN THAT INDUSTRY.

For the fiscal years ended December 31, 2013 and 2012, we derived 63% and 64%, respectively, of our total revenues from the hospitality industry, primarily the QSR market. Consequently, our hospitality technology product sales are dependent in large part on the health of the hospitality industry, which in turn is dependent on the domestic and international economy, as well as factors such as consumer buying preferences and weather conditions. Instabilities or downturns in the hospitality market could disproportionately impact our revenues, as clients may exit the industry or delay, cancel or reduce planned expenditures for our products. Although we believe we can succeed in the quick service restaurant sector of the hospitality industry in a competitive environment, given the cyclical nature of that industry, there can be no assurance our profitability and growth will continue.

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WE FACE EXTENSIVE COMPETITION IN THE MARKETS IN WHICH WE OPERATE, AND OUR FAILURE TO COMPETE EFFECTIVELY COULD RESULT IN PRICE REDUCTIONS AND/OR DECREASED DEMAND FOR OUR PRODUCTS AND SERVICES.

Several competing suppliers offer hospitality management systems similar to ours. Some of these competitors are larger than PAR and have access to substantially greater financial and other resources and, consequently, may be able to obtain more favorable terms than we can for components and subassemblies incorporated into these hospitality technology products. The rapid rate of technological change in the Hospitality segment makes it likely we will face competition from new products designed by companies not currently competing with us. These new products may have features not currently available from us. We believe our competitive ability depends on our total solution offering, our experience in the industry, our product development and systems integration capability, our direct sales force and our customer service organization. There is no assurance; however, we will be able to compete effectively in the hospitality technology market in the future.

Our Government contracting business has been focused on niche offerings, reflecting our expertise, primarily in the areas of Communications Systems Support, Intelligence, Surveillance and Reconnaissance (ISR), Systems Engineering & Evaluation and Information Systems services. Many of our competitors are larger and have substantially greater financial resources and broader capabilities in information technology. We also compete with smaller companies, many of which are designated by the Government for preferential “set aside” treatment, that target particular segments of the government market and may have superior capabilities in a particular segment. These companies may be better positioned to obtain contracts through competitive proposals. Consequently, there are no assurances we will continue to win Government contracts as a direct contractor or indirect subcontractor.

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WE MAY NOT BE ABLE TO MEET THE UNIQUE OPERATIONAL, LEGAL AND FINANCIAL CHALLENGES THAT RELATE TO OUR INTERNATIONAL OPERATIONS, WHICH MAY LIMIT THE GROWTH OF OUR BUSINESS.

For the fiscal years ended December 31, 2013, and 2012, our net revenues from sales outside the United States were 16% and 15%, respectively, of the Company’s total revenues. We anticipate international sales will continue to account for a significant portion of sales. We intend to continue to expand our operations outside the United States and to enter additional international markets, which will require significant management attention and financial resources. Our operating results are subject to the risks inherent in international sales, including, but not limited to, regulatory requirements, political and economic changes and disruptions, geopolitical disputes and war, transportation delays, difficulties in staffing and managing foreign sales operations, and potentially adverse tax consequences. In addition, fluctuations in exchange rates may render our products less competitive relative to local product offerings, or could result in foreign exchange losses, depending upon the currency in which we sell our products. There can be no assurance these factors will not have a material adverse affect on our future international sales and, consequently, on our operating results.

WE DERIVE A PORTION OF OUR REVENUE FROM U.S. GOVERNMENT CONTRACTS, WHICH CONTAIN PROVISIONS UNIQUE TO PUBLIC SECTOR CUSTOMERS, INCLUDING THE U.S. GOVERNMENT’S RIGHT TO MODIFY OR TERMINATE THESE CONTRACTS AT ANY TIME.

For the fiscal years ended December 31, 2013 and 2012, we derived 37% and 36%, respectively, of our total revenues from contracts to provide technical expertise to Government organizations and prime contractors. In any year, the majority of our Government contracting activity is associated with the U.S. Department of Defense. Contracts with the U.S. Government typically provide that such contracts are terminable, in full or in part, at the convenience of the U.S. Government. If the U.S. Government terminated a contract on this basis, we would be entitled to receive payment for our allowable costs and, in general, a proportionate share of our fee or profit for work actually performed. Most U.S. Government contracts are also subject to modification or termination in the event of changes in funding. As such, we may perform work prior to formal authorization, or the contract prices may be adjusted for changes in scope of work. Termination or modification of a substantial number of our U.S. Government contracts could have a material adverse effect on our business, financial condition and results of operations.

In addition, the general uncertainty in U.S. defense total workforce policies (military, civilian and contract), procurement cycles and spending levels for the next several years may impact the performance of this business. Specifically, the Company could experience reductions in revenue as a result of the U.S. Government in-sourcing its current service contracts or the Company could experience a reduction of funding due to U.S. Government sequester or other funding reductions.

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We perform work for various U.S. Government agencies and departments pursuant to fixed-price, cost-plus fixed fee and time-and-material prime contracts and subcontracts. Approximately 56% of the revenue that we derived from government contracts for the year ended December 31, 2013 came from fixed-price or time-and-material contracts. The balance of the revenue that we derived from Government contracts in 2013 primarily came from cost-plus fixed fee contracts. Most of our contracts are for one-year to five-year terms.

While fixed-price contracts allow us to benefit from cost savings, they also expose us to the risk of cost overruns. If the initial estimates we use for calculating the contract price are incorrect, we can incur losses on those contracts. In addition, some of our governmental contracts have provisions relating to cost controls, and audit rights and if we fail to meet the terms specified in those contracts, then we may not realize their full benefits. Lower earnings caused by cost overruns would have an adverse effect on our financial results.

Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Under cost-plus fixed fee contracts, we are reimbursed for allowable costs and paid a fixed fee. However, if our costs under either of these types of contract exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, we may not be able to obtain reimbursement for all of our costs.

If we are unable to control costs incurred in performing under each type of contract, such inability to control costs could have a material adverse effect on our financial condition and operating results. Cost over-runs also may adversely affect our ability to sustain existing programs and obtain future contract awards.

A SIGNIFICANT PORTION OF OUR TOTAL ASSETS CONSISTS OF GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS, WHICH ARE SUBJECT TO A PERIODIC IMPAIRMENT ANALYSIS AND A SIGNIFICANT IMPAIRMENT DETERMINATION IN ANY FUTURE PERIOD, COULD HAVE AN ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS EVEN WITHOUT A SIGNIFICANT LOSS OF REVENUE OR INCREASE IN CASH EXPENSES ATTRIBUTABLE TO SUCH PERIOD.

We have goodwill and identifiable intangible assets at December 31, 2013 totaling approximately $6.9 million and $15.1 million, respectively; resulting primarily from business acquisitions and internally developed capitalized software. The Company tests goodwill for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We describe the impairment testing process and results of this testing more thoroughly herein in Item 7 under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies.” If we determine an impairment has occurred at any point in time, we will be required to reduce goodwill or identifiable intangible assets on our balance sheet.

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Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

The following are the principal facilities (by square footage) of the Company:

Location	Industry Segment	Floor Area Principal Operations	Number of Sq. Ft.
New Hartford, NY	Hospitality	Principal executive offices, manufacturing, research and development laboratories, computing facilities	174,450
Rome, NY	Government	Research and development	30,800
Stowe, VT	Hospitality	Sales, service and research and development	26,500
Boulder, CO	Hospitality	Service	20,500
Boca Raton, FL	Hospitality	Research and development	14,900
Sydney, Australia	Hospitality	Sales and service	14,400
Las Vegas, NV	Hospitality	Service	12,000
Vaughn, Canada	Hospitality	Sales, service and research and development	10,000
Toronto, Canada	Hospitality	Sales, service and research and development	7,700

The Company's headquarters and principal business facility is located in New Hartford, NY, which is near Utica, in central New York State.

The Company owns its principal facility and adjacent space in New Hartford. All of the other facilities are leased for varying terms. Substantially all of the Company's facilities are fully utilized, well maintained, and suitable for use. The Company believes its present and planned facilities and equipment are adequate to service its current and immediately foreseeable business needs.

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Item 3: Legal Proceedings

The Company is subject to legal proceedings which arise in the ordinary course of business. In the opinion of management, the ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations or cash flows of the Company.

Item 4: Mine Safety Disclosures

Not Applicable.

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PART II

Item 5: Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock, par value $.02 per share, trades on the New York Stock Exchange (NYSE symbol - PAR). At December 31, 2013, there were approximately 398 owners of record of the Company's Common Stock, plus those owners whose stock certificates are held by brokers.

The following table shows the high and low stock prices for the two years ended December 31, 2013 as reported by New York Stock Exchange:

	2013		2012	
Period	Low	High	Low	High
First Quarter	$4.11	$5.10	$3.84	$5.18
Second Quarter	$3.85	$4.89	$4.50	$5.14
Third Quarter	$4.01	$5.27	$4.57	$5.59
Fourth Quarter	$4.83	$5.92	$4.75	$5.55

The Company has not paid cash dividends on its Common Stock, and its Board of Directors presently intends to continue to retain earnings for reinvestment in growth opportunities. Accordingly, it is anticipated no cash dividends will be paid in the foreseeable future.

Item 6: Selected Financial Data

Not Required.

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Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Any statements in this document that do not describe historical facts are forward-looking statements. Forward-looking statements in this document (including forward-looking statements regarding the continued health of segments of the hospitality industry, future information technology outsourcing opportunities, an expected increase or decrease in contract funding by the U.S. Government, the impact of current world events on our results of operations, the effects of inflation on our margins, and the effects of interest rate and foreign currency fluctuations on our results of operations) are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When we use words such as “intend,” “anticipate,” “believe,” “estimate,” “plan,” “will,” or “expect”, we are making forward-looking statements. We believe the assumptions and expectations reflected in such forward-looking statements are reasonable based on information available to us on the date hereof, but we cannot assure you these assumptions and expectations will prove to have been correct or we will take any action that we presently may be planning. We have disclosed certain important factors that could cause our actual future results to differ materially from our current expectations, including: a decline in the volume of purchases made by one or a group of our major customers; risks in technology development and commercialization; risks of downturns in economic conditions generally, and in the quick-service sector of the hospitality market specifically; risks associated with government contracts; risks associated with competition and competitive pricing pressures; and risks related to foreign operations. Forward-looking statements made in connection with this report are necessarily qualified by these factors. We are not undertaking to update or revise publicly any forward-looking statements if we obtain new information or upon the occurrence of future events or otherwise.

Overview

PAR's technology solutions for the Hospitality segment feature software, hardware and support services tailored for the needs of restaurants, hotels, resorts and spas, casinos, cruise lines, movie theatres, theme parks and retailers. The Company's Government segment provides technical expertise in the contract development of advanced systems and software solutions for the U.S. Department of Defense and other federal agencies, as well as information technology and communications support services to the U.S. Department of Defense.

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The Company's products sold in the Hospitality segment are utilized in a wide range of applications by thousands of customers. The Company faces competition across all of its markets within the Hospitality segment, competing on the basis of product design, features and functionality, quality and reliability, price, customer service, and delivery capability. PAR's continuing strategy is to provide complete integrated technology solutions with industry leading customer service in the markets in which it participates. The Company conducts its research and development efforts to create innovative technology offerings that meet and exceed customer requirements and also have a high probability for broader market appeal and success.

The Company is focused on expanding four distinct parts of its Hospitality businesses. First, it is investing in the continued development and deployment of ATRIO®, its cloud-based software for the Hotel/Resort/Spa markets. Second, the Company is investing in the enhancement of existing software and the development of the Company's SureCheck® product for food safety and task management applications. Third, the Company continues to work on expanding its third-party distribution channels. Fourth, as the Company's customers continue to open new outlets in international markets, PAR has created an international infrastructure focused on that expansion.

The Quick Serve Restaurant (QSR) market, PAR's primary market, continues to perform well for the majority of large, international companies, despite worldwide macroeconomic uncertainty. The Company is continuing to reassess the alignment of its product and service offerings to support improved operational efficiency and profitability going forward. These conditions could have a material adverse impact on the Company's estimates, specifically the fair value of its assets related to its legacy products.

The focus of the Company’s Government business is to expand its services and solutions business lines. Through outstanding performance of existing service contracts and investing in enhancing its business development capabilities, the Company is able to consistently win renewal of expiring contracts, extend existing contracts, and secure additional new business. With its intellectual property and investment in new technologies, the Company provides solutions to the U.S. Department of Defense and other federal/state agencies with systems integration, products and highly-specialized services. The general uncertainty in U.S. defense total workforce policies (military, civilian and contract), procurement cycles and spending levels for the next several years, may impact the performance of this business.

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Results of Operations — 2013 Compared to 2012

The Company reported revenues of $241.4 million for the year ended December 31, 2013, a decrease of 2% from the $245.2 million reported for the year ended December 31, 2012. The Company's net income from continuing operations for the year ended December 31, 2013 was $569,000, or $0.04 per diluted share, compared to net loss of $1.8 million, or $0.12 per share for the same period in 2012. During 2013, the Company reported a loss from discontinued operations of $211,000, or $0.01 per share, associated with its former Logistics Management business. This compares to net income from discontinued operations of $1.4 million or $0.10 per diluted share for the same period in 2012. The Company's net income for the year ended December 31, 2013 was $358,000, or $0.02 per diluted share, compared to a net loss of $315,000, or $0.02 per share for fiscal year 2012.

Product revenues for the year ended December 31, 2013 were $90.8 million, an increase from the $90.5 million recorded for the same period 2012. This increase was primarily the result of increased sales to Carl's Jr. units of CKE Restaurants, Inc. and continued growth within our international markets, which grew 17% year over year, primarily driven by sales to McDonald's in China. In addition, the Company experienced increased sales through its third-party distribution channels. Partially offsetting these increases was a decrease in sales of the Company's SureCheck product, noting the Company executed a transaction with a significant launch customer during 2012.

Service revenue primarily includes installation, software maintenance, training, 24 hour help desk support and various depot and on-site service options. Customer service revenues were $61.5 million for the year ended December 31, 2013, a 7% decrease from $66.1 million reported for the same period in 2012. During the year, the Company experienced a decline in call center revenue resulting from service contract modifications as well as decline in installation services for certain accounts which did not recur in 2013. This decline is partially offset by an increase associated with the Company's depot repair operation resulting from new contracts.

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Government contract revenues were $89.0 million for the year ended December 31, 2013, an increase of 1% when compared to the $88.5 million recorded in 2012. The Company continues to service its fixed price and cost plus contracts related to Communication and Information Technology Support as well as Intelligence, Surveillance, and Reconnaissance (ISR) systems integration.

Product margins for the year ended December 31, 2013 were 31.4%, an increase from 27.9% in the same period in 2012. The increase was primarily the result of accelerated amortization of $5.3 million to reduce the net carrying value of capitalized software asset in conjunction with the Company's strategic initiative to streamline its Hospitality product portfolio that was recorded in 2012.

Customer service margins were 29% for the year ended December 31, 2013, compared to 30.3% for the same period in 2012. The decrease was primarily due to unfavorable mix in service offerings compared to year ended December 31, 2012.

Government contract margins were 7.2% for the year ended December 31, 2013, an increase to the 6.4% for the same period in 2012. This increase was due to favorable modifications of certain contracts that were extended during the year, partially offset by investments in the Company's ISR technologies. For 2013, labor and fringe benefits were $40.2 million, or 51% of contract costs, compared to $40.7 million or 49% of contract costs for the same period in 2012. This increase in percentage is mostly attributable to the increase in direct labor associated with contracts that were extended in fiscal year 2013.

Selling, general and administrative expenses for the year ended December 31, 2013 were $37.9 million, a decrease of 6% from the $40.5 million recorded for the same period in 2012. The decrease is attributable to the Company's execution of cost reduction initiatives within its domestic Hospitality operations. In addition, the decrease was due to higher commission expense associated with the increase in software sales during 2012. Partially offsetting the decrease were increases from certain separation cost and litigation matters settled in the first quarter.

Research and development expenses were $15.6 million for the year ended December 31, 2013, an increase of 14% from the $13.7 million recorded in 2012. This increase was primarily related to software development costs for products within the Hospitality segment associated with the Company's continued investment in its new hardware and software products.

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During 2013, the Company did not have any amortization expense associated with acquired identifiable intangible assets as the related assets became fully amortized in 2012. During the period ended December 31, 2012 amortization of identifiable intangible assets was $455,000.

Other income, net, was $506,000 for the year ended December 31, 2013 compared to $876,000 for the same period in 2012. Other income/expense primarily includes unrealized gains/losses on the Company's investments, market value fluctuations of the Company's deferred compensation plan, rental income, strategic product development partnerships, and foreign currency gains and losses. The income in 2013 is primarily related to strategic product development partnerships within the Company's Hospitality businesses and a lower fair value adjustment with respect to the Company's deferred compensation plan. The income in 2012 was primarily due to finance charges associated with the Company's Hospitality businesses and foreign currency gains.

Interest expense represents interest charged on the Company's short-term borrowings from banks and from long-term debt. Interest expense was $60,000 for the year ended December 31, 2013, compared to $69,000 for the same period in 2012. This reduction is associated with a lower outstanding borrowing in 2013 versus 2012.

For the year ended December 31, 2013, the Company's effective income tax rate was a benefit of 370%, compared to a benefit of 44.5% in 2012. The variance from the federal statutory rate in 2013 was due to a benefit of $410,000 received in connection with the American Taxpayer Relief Act of 2012 that was signed into law in January 2013. The credit related to retroactive tax relief for certain tax law provisions that expired in 2012. As the legislation was signed into law after the end of PAR's 2012 fiscal year, the retroactive effect of the bill is reflected in fiscal year 2013 tax provision. Excluding the retroactive application of this credit, the Company's effective federal rate is 175%. The remaining variance from the federal statutory rate was due to the mix of taxable income generated by the Company's domestic and foreign operations as well as other tax credits and non-deductible expenses. The variance from the federal statutory rate in 2012 was due to state and foreign taxes as well as the tax impact of liquidating a foreign subsidiary.

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Liquidity and Capital Resources

The Company's primary sources of liquidity have been cash flow from operations and lines of credit with various commercial banks. Cash used by operating activities of continuing operations was $2.8 million for the year ended December 31, 2013 compared to cash provided of $15.1 million for the same period in 2012. In 2013, cash was used in operations mostly due to the Company's change in working capital requirements, primarily associated with decreases in accrued expenses and accounts payable due to the timing of payments made to vendors, specifically for inventory purchases and payments associated with the Company's ISR contract with the U.S. Government. This was partially offset by the add back of non-cash charges.

In 2012, cash was generated by the add back of non-cash expenses including the accelerated amortization of internally developed software assets that were previously capitalized. The most significant changes to the Company's operating assets and liabilities that impacted cash flow were an increase in accounts payable primarily due to the timing of payments associated with the Company's ISR contract with the U.S. Government, as well as an increase in deferred service revenue due to the timing of billing of customer service contracts. Offsetting these changes was an increase in inventory in support of shipments planned for early 2013.

Cash used in investing activities from continuing operations was $5.8 million for the year ended December 31, 2013 versus $247,000 for the same period in 2012. In 2013, capital expenditures of $1.1 million were primarily for purchases of computer equipment associated with the Company's software support service offerings. Capitalized software was $4.7 million and was associated with investments for various Hospitality software platforms.

In 2012, the Company received cash proceeds of $4 million related to the sale of its Logistics Management business, and generated $1.9 million from the maturity of its investments. In addition, $828,000 of the proceeds from the Company's sale of its Logistics Management business remained in escrow as of the end of fiscal 2012. Capital expenditures were $1.9 million and were primarily related to capital investments to support the Company's new hardware products, as well as for purchases of office and computer equipment. Capitalized software was $3.4 million and was associated with the Company's Hospitality software platforms.

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Cash used in financing activities from continuing operations was $107,000 for the year ended December 31, 2013 versus $1.5 million for the same period in 2012. In 2013, the Company decreased its long-term borrowings by $159,000 and benefited $52,000 from the exercise of employee stock options. In 2012, the Company decreased its long-term borrowings by $1.5 million and benefited $24,000 from the exercise of employee stock options.

The Company maintains a credit facility which provides borrowing availability up to $20 million (with the option to increase to $30 million) in the form of a line of credit. This agreement allows the Company, at its option, to borrow funds at the LIBOR rate plus the applicable interest rate spread or at the bank's prime lending rate (3.25% at December 31, 2013). This agreement expires in June 2014. At December 31, 2013, the Company did not have any outstanding balance on this line of credit. The weighted average interest rate paid by the Company was 2.7% during fiscal year 2013. This agreement contains certain loan covenants including leverage and fixed charge coverage ratios. In February 2013, the agreement was amended to allow the Company to exclude certain extraordinary or non-recurring non-cash expenses, charges or losses, and certain litigation expenses incurred during the fourth quarter of 2012. The exclusion of these charges was applied to the Company's debt covenant calculation through December 31, 2013. Additionally, as part of this amendment, the Company modified its definition of Earnings before Interest Taxes, Depreciation and Amortization (EBITDA), to exclude certain non-cash charges for the remainder of the agreement. The Company is in compliance with these amended covenants at December 31, 2013. This credit facility is secured by certain assets of the Company.

On March 10, 2014, the Company executed a commitment letter with the lenders of its existing credit facility. The commitment initially provides the Company $20 million (with the option to increase to $30 million) in a revolving credit facility. The terms and conditions of the commitment letter are generally consistent with those of the Company's existing credit agreement which will provide the Company with availability under the line of credit up to 36 months from the date of closing. The committed credit facility will be secured by certain assets of the Company.

The Company has a $1.1 million mortgage loan, collateralized by certain real estate. This mortgage matures on November 1, 2019. In May 2012, the Company amended its mortgage to reduce the fixed interest rate to 4.05% through October 1, 2014. Beginning on October 1, 2014 and through the maturity date of the loan, the fixed rate will be converted to a new rate equal to the then-current five year fixed advanced rate charged by the New York Federal Home Loan bank, plus 225 basis points. The annual mortgage payment including interest through October 1, 2014 totals $207,000.

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During fiscal year 2014, the Company anticipates that its capital requirements will not exceed approximately $3-5 million. The Company does not usually enter into long term contracts with its major Hospitality segment customers. The Company commits to purchasing inventory from its suppliers based on a combination of internal forecasts and actual orders from customers. This process, along with good relations with suppliers, minimizes the working capital investment required by the Company. Although the Company lists two major customers, McDonald's and Yum! Brands, it sells to hundreds of individual franchisees of these corporations, each of which is individually responsible for its own debts. These broadly made sales substantially reduce the impact on the Company's liquidity if one individual franchisee reduces the volume of its purchases from the Company in a given year. The Company, based on internal forecasts, believes its existing cash, line of credit facilities and its anticipated operating cash flow will be sufficient to meet its cash requirements through the next twelve months. However, the Company may be required, or could elect, to seek additional funding prior to that time. The Company's future capital requirements will depend on many factors including its rate of revenue growth, the timing and extent of spending to support product development efforts, potential growth through strategic acquisition, expansion of sales and marketing, the timing of introductions of new products and enhancements to existing products, and market acceptance of its products. The Company cannot assure additional equity or debt financing will be available on acceptable terms or at all. The Company's sources of liquidity beyond twelve months, in management's opinion, will be its cash balances on hand at that time, funds provided by operations, funds available through its lines of credit and the long-term credit facilities that it can arrange.

The Company's future principal payments under its term loan, mortgage and operating leases are as follows (in thousands):

	Total	Less Than 1 Year	1-3 Years	3 - 5 Years	More than 5 Years
Long-term debt obligations	$1,084	$166	$352	$382	$184
Operating lease	5,349	1,725	1,895	875	854
Total	$6,433	$1,891	$2,247	$1,257	$1,038

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Critical Accounting Policies

The Company's consolidated financial statements are based on the application of U.S. generally accepted accounting principles (GAAP). GAAP requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. The Company believes its use of estimates and underlying accounting assumptions adhere to GAAP and are consistently applied. Valuations based on estimates are reviewed for reasonableness and adequacy on a consistent basis throughout the Company. Primary areas where financial information of the Company is subject to the use of estimates, assumptions and the application of judgment include revenue recognition, accounts receivable, inventories, goodwill and intangible assets, and taxes.

Revenue Recognition Policy

Product revenues consist of sales of the Company's standard point-of-sale and property management systems of the Hospitality segment. Product revenues include both hardware and software sales. The Company also records service revenues relating to its standard point-of-sale and property management systems of the Hospitality segment.

Hardware

Revenue recognition on hardware sales occurs upon delivery to the customer site (or when shipped for systems that are not installed by the Company) when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured.

Software

Revenue recognition on software sales generally occurs upon delivery to the customer site (or when shipped for systems that are not installed by the Company), when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is probable. For software sales where the Company is the sole party that has the proprietary knowledge to install the software, revenue is recognized upon installation and when the system is ready to go live.

Service

Service revenue consists of installation and training services, support maintenance, and field and depot repair. Installation and training service revenue are based upon standard hourly/daily rates, and revenue is recognized as the services are performed. Support maintenance and field and depot repair are provided to customers either on a time and materials basis or under a maintenance contract. Services provided on a time and materials basis are recognized as the services are performed. Service revenues from maintenance contracts are recorded as deferred revenue when billed to the customer and are recognized ratably over the underlying contract period.

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The individual hardware, service, and software offerings that are included in arrangements with our customers are identified and priced separately to the customer based upon the stand alone price for each individual hardware, service, or software sold in the arrangement irrespective of the combination of products and services which are included in a particular arrangement. As such, the units of accounting are based on each individual hardware, service, and software sold, and revenue is allocated to each element based on fair value. Fair value is determined using vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE or TPE is available. BESP must be determined in a manner that is consistent with that used to determine the price to sell the specific elements on a standalone basis. Our best estimate of selling price is established considering multiple factors including, but not limited to, pricing practices with different classes of customers, geographies and through different sales channels and other factors contemplated in negotiating the arrangement with the customer.

In situations where PAR's solutions contain software that is more than incidental, revenue related to software and software related elements is recognized in accordance with authoritative guidance on software revenue recognition. For the software and software-related elements of such transactions, revenue is allocated based on the relative fair value of each element, and fair value is determined by vender specific objective evidence (VSOE). If the Company cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements, the Company defers the revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

Government Contracts

The Company's contract revenues generated by the Government segment result primarily from contract services performed for the U.S. Government under a variety of cost-plus fixed fee, time-and-material, and fixed-price contracts. Revenue on cost-plus fixed fee contracts is recognized based on allowable costs for labor hours delivered, as well as other allowable costs plus the applicable fee. Revenue on time and material contracts is recognized by multiplying the number of direct labor hours delivered in the performance of the contract by the contract billing rates and adding other direct costs as incurred. Revenue from fixed-price contracts is recognized as labor hours are delivered, which approximates the straight-line basis of the life of the contract. The Company's obligation under these contracts is to provide labor hours to conduct research or to staff facilities with no other deliverables or performance obligations. Anticipated losses on all contracts are recorded in full when identified. Unbilled accounts receivable are stated in the Company's consolidated financial statements at their estimated realizable value. Contract costs, including indirect expenses, are subject to audit and adjustment through negotiations between the Company and U.S. Government representatives.

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Statement of cash flows

For purposes of reporting cash flows, the Company considers all highly liquid investments, purchased with a remaining maturity of three months or less, to be cash equivalents.

Accounts Receivable-Allowance for Doubtful Accounts

Allowances for doubtful accounts are based on estimates of probable losses related to accounts receivable balances. The establishment of allowances requires the use of judgment and assumptions regarding probable losses on receivable balances. The Company continuously monitors collections and payments from our customers and maintain a provision for estimated credit losses based on our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and appropriate reserves have been established, PAR cannot guarantee that we will continue to experience the same credit loss rates that PAR has experienced in the past. Thus, if the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates, and additional allowances would be required.

Inventories

The Company's inventories are valued at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. The Company uses certain estimates and judgments and considers several factors including product demand, changes in customer requirements and changes in technology to provide for excess and obsolescence reserves to properly value inventory.

Capitalized Software Development Costs

The Company capitalizes certain costs related to the development of computer software used in its Hospitality segment. Software development costs incurred prior to establishing technological feasibility are charged to operations and included in research and development costs. The technological feasibility of a computer software product is established when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements. Software development costs incurred after establishing feasibility (as defined within ASC 985-20) are capitalized and amortized on a product-by-product basis when the product is available for general release to customers. Annual amortization, charged to cost of sales when the product is available for general release to customers, is computed using the greater of (a) the straight-line method over the remaining estimated economic life of the product, generally three to seven years or (b) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product.

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Goodwill

The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. The Company operates in two business segments, Hospitality and Government. Goodwill impairment testing is performed at the sub-segment level (referred to as a reporting unit). The three reporting units utilized by the Company for its impairment testing are: Restaurant, Hotel/Resort/Spa, and Government. Goodwill is assigned to a specific reporting unit at the date the goodwill is initially recorded. Once goodwill has been assigned to a specific reporting unit, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment, at which time a second step would be performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment.

With respect to the Government and Hotel/Resort/Spa reporting units, the Company utilizes three different methodologies in performing its goodwill impairment test. These methodologies include both an income approach, namely a discounted cash flow method, and two market approaches; the guideline public company method and quoted price method. Consistent with the 2012 valuation, the Company did not utilize the discounted cash flow method for its Restaurant reporting unit as this reporting unit no longer carries a goodwill balance. As such, the Company has applied a 50% weight to each of the aforementioned market approaches for this reporting unit. The valuation methodologies and weightings used in the current year are generally consistent with those used in the Company's past annual impairment tests.

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The discounted cash flow method derives a value by determining the present value of a projected level of income stream, including a terminal value. This method involves the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one which a prudent investor would require before making an investment in the equity of the Company. The Company considers this method to be most reflective of a market participant's view of fair value given the current market conditions, as it is based on the Company's forecasted results and, therefore, established its weighting at 80% of the fair value calculation.

Key assumptions within the Company's discounted cash flow model utilized for its annual impairment test included projected financial operating results, a long term growth rate of 3% and discount rates ranging from 17% to 28%, depending on the reporting unit. As stated above, as the discounted cash flow method derives value from the present value of a projected level of income stream, a modification to the Company's projected operating results including changes to the long term growth rate could impact the fair value. The present value of the cash flows is determined using a discount rate based on the capital structure and capital costs of comparable public companies, as well as company-specific risk premium, as identified by the Company. A change to the discount rate could impact the fair value determination.

The market approach is a generally-accepted way of determining a value indication of a business, business ownership interest, security or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities or intangible assets that have been sold. There are two methodologies considered under the market approach: the public company method and the quoted price method.

The public company method and quoted price method of appraisal are based on the premise that pricing multiples of publicly traded companies can be used as a tool to be applied in valuing closely held companies. The mechanics of the method require the use of the stock price in conjunction with other factors to create a pricing multiple that can be used, with certain adjustments, to apply against the subject's similar factor to determine an estimate of value for the subject company. The Company considered these methods appropriate as they provide an indication of fair value as supported by current market conditions. The Company established its weighting at 10% of the fair value calculation for each method.

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The most critical assumption underlying the market approaches utilized by the Company are the comparable companies utilized. Each market approach described above estimates revenue and earnings multiples for the Company based on its comparable companies. As such, a change to the comparable companies could have an impact on the fair value determination.

The amount of goodwill carried by the Hotel/Resort/Spa and Government reporting units is $6.1 million and $0.7 million, respectively. The estimated fair value of the Hotel/Resort/Spa reporting unit exceeds its carrying value by approximately 16%. The estimated fair value of the Government reporting unit is substantially in excess of its carrying value.

Hotel /Resort/Spa:

In deriving its fair value estimates, the Company has utilized key assumptions built on the current core business adjusted to reflect anticipated revenue increases from continued investment in its next generation software. These assumptions, specifically those included within the discounted cash flow estimate, are comprised of the revenue growth rate, gross margin, operating expenses, working capital requirements, and depreciation and amortization expense.

The Company has utilized annual revenue growth rates ranging between 1% and 27%. The high end growth rate reflects the Company’s projected revenues resulting from the release of ATRIO. This software platform will expand the Company’s capabilities into new markets. The Company believes these estimates are reasonable given the size of the overall market which it will enter, combined with the projected market share the Company expects to achieve. Overall, the projected revenue growth rates ultimately trend to an estimated long term growth rate of 3%.

The Company has utilized gross margin estimates materially consistent with historical gross margins achieved. Estimates of operating expenses, working capital requirements and depreciation and amortization expense utilized for this reporting unit are generally consistent with actual historical amounts, adjusted to reflect its continued investment and projected revenue growth from ATRIO. The Company believes utilization of actual historical results adjusted to reflect its continued investment in ATRIO is an appropriate basis supporting the fair value of the Hotel/Resort/Spa reporting unit.

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Lastly, the Company utilized a discount rate of approximately 28% for this reporting unit. This estimate was derived through a combination of current risk-free interest rate data, financial data from companies that PAR has deemed as its competitors, and was based on volatility between the Company’s historical financial projections and actual results achieved.

The current economic conditions and the continued volatility in the U.S. and in many other countries in which the Company operates could contribute to decreased consumer confidence and continued economic uncertainty which may adversely impact the Company’s operating performance. Although the Company has seen an improvement in the markets which it serves, the continued volatility in these markets could have an impact on purchases of the Company’s products, which could result in a reduction of sales, operating income and cash flows. Reductions in these results could have a material adverse impact on the underlying estimates used in deriving the fair value of the Company’s reporti