growth_2005

hospitality

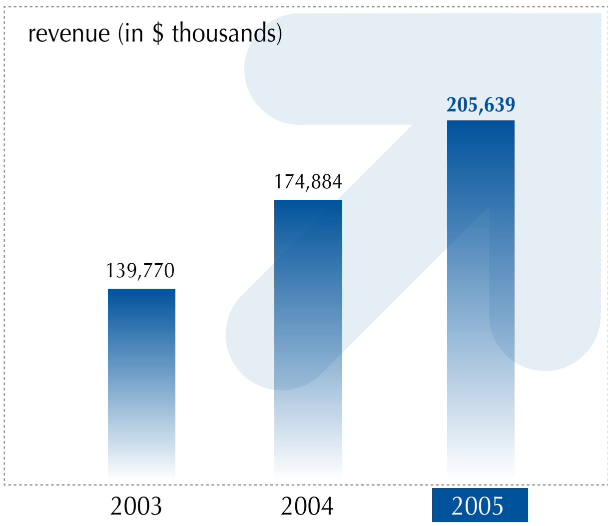
government

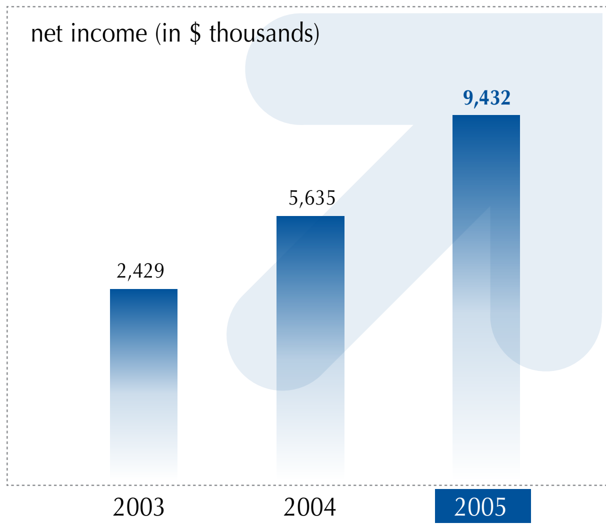
par technology corporation

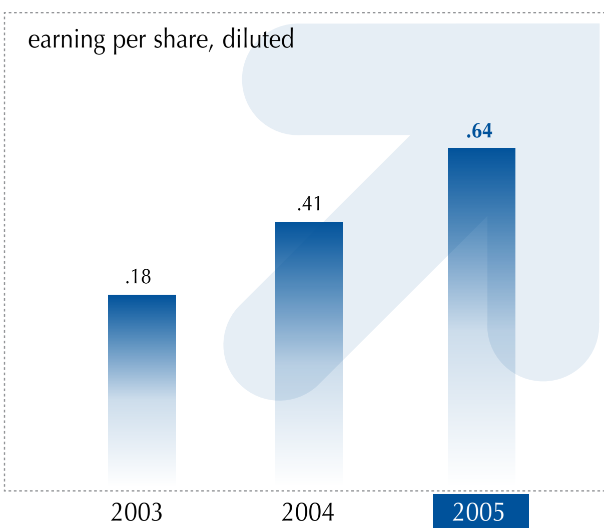
annual report

financial highlights

(In thousands, except per share amounts)		Year ended December 31, 2005		2004		2003
Revenue	$	205,639	$	174,884	$	139,770
Net income	$	9,432	$	5,635	$	2,429
Earnings per share, diluted	$	0.64	$	0.41	$	0.18
Cash and cash equivalents	$	4,982	$	8,696	$	1,467
Total assets	$	125,149	$	111,752	$	87,147
Shareholders' equity	$	78,492	$	63,574	$	55,239
Cash provided by operating activities	$	11,487	$	19,488	$	3,395







a message from the chairman

2005 was a very successful year for PAR Technology and I am pleased to report that we have been able to deliver a record-breaking performance, improve financial returns and build a strong base for future value growth for our shareholders.

The financial highlights of 2005 demonstrate how much has been achieved. Our revenues grew 18% last year to $205.6 million. With net income rising 67%, we continued to build our reputation as a company that delivers consistent results. Earnings per share increased 56% to $0.64 (post split). Of particular note is the significant increase in both product and service margins; both increasing 8 percentage points. These increases are the result of the significant increase of software revenue in our product mix. In 2005, software revenues increased in all sectors of our Hospitality businesses including QSR and table serve restaurants, hotels and spas.

Our stock performed well in 2005 growing 146% while average trading volume increased dramatically from 13,000 to 124,000 shares per day. In order to support and improve trading performance we executed a 3 for 2 split of our stock in January of 2006.

Our achievements have generated the energy and momentum that will carry our Company forward for years to come. After successfully acquiring Springer-Miller Systems in 2004, we were able to complete another strategic acquisition last year. The acquisition of PixelPoint® Technologies will allow us to expand our reach to the table service and fine dining restaurant marketplace; a natural progression for our business.

PAR now consists of increasingly connected hospitality technology businesses; each performing well with significant opportunities for growth and a very stable and successful Government I/T business.

Our Company will focus upon developing integrated solutions for the hospitality industry. We will be broadening our global reach in specific international growth areas including China, India and the Middle East. We will be extending sales of our entire product line through our expanding international channels targeting high growth areas in Asia and the Middle East. We have initiated plans which will enhance the existing entrepreneurial mindset among our employees to find new ways to serve our growing customer base.

We will continue to execute our strategy of leveraging our core competencies and PAR's infrastructure into related hospitality technical markets in order to expand our customer base and overall market share. We will accomplish this through additional strategic acquisitions of, and partnerships with, companies that expand our markets.

PAR's hospitality business growth continues to be driven by sales of our technology products to traditional customers such as, McDonald's, YUM Brands and other national brand restaurants. A major account was added last year with the win of Papa Murphy's as a customer. Papa Murphy's is a pizza chain with more than 900 restaurants and has selected PAR's integrated solution of software, hardware and services.

We will build upon our strength in hospitality technology which has provided us with the largest share of our revenues. With the aforementioned PixelPoint Technologies acquisition, PAR now can extend its product offerings to the table service segment of the restaurant industry. PixelPoint currently sells their software in multiple language versions to several major international markets. PixelPoint's install base numbers 5,000 systems across the globe. Their offerings include HeadOffice™ enterprise management, PocketPOS™, a seamless wireless application for remote order taking, Web-to-go™ online ordering for customers via the internet and MemberShare™, an in-store and enterprise level loyalty and gift card application. PixelPoint has an excellent reputation in the table service market and we are eager to apply our extensive infrastructure to facilitate their continued expansion. We also will be combining their software applications with our industry leading hardware platforms and award winning service organization to offer a truly integrated technology solution to table service and fine dining restaurants worldwide.

In our hotel/resort/spa business PAR Springer-Miller continues to be a leading provider of property management systems (PMS) solutions to all types of hospitality enterprises including city-center hotels, destination spas, golf resorts, timeshare properties and casino resorts worldwide. Since acquiring this business in 2004 Springer-Miller's SMS|Host® Hospitality Management System continues to distinguish itself from other PMS applications with its truly integrated design and unique approach to guest services. The SMS|Host suite of applications include more than 20 seamlessly integrated guest-centric application modules that provides hotel/resort staff with the necessary tools to personalize service, exceed guest expectations and increase revenues for the customers' properties. PAR Springer-Miller also provides the day and destination spa industry with the leading management application that was specifically designed to support the unique requirements of spas, a rapidly growing sector in hospitality.

Our plan is to take full advantage of the significant opportunities to cross-sell our traditional hardware products and lifecycle and professional services to our ancillary markets of hotels/resorts, spas and full service restaurants.

PAR's strategic initiatives aimed at improving growth across our business lines and improving the fundamentals in our hospitality business led the way toward achieving our record results. During 2005 we increased product sales in our hospitality business by 18% from 2004, and service revenues grew a comparable 23%. We dramatically increased software sales resulting in significant increases of 8 percentage points in both product and service margins. We enjoyed success with marketing our ViGo™ hardware platform, with its patent pending design which includes a credit/debit capability that quick service restaurants require today. We are eager to provide our customers an enabling solution, such as ViGo combined with our enterprise software that will help them realize the full value potential of their business assets.

We were also encouraged by the progress made by our enterprise software suite, InFusion. A strategic application within the InFusion package is our InQuire reporting tool. InQuire is a PAR-hosted, web-based enterprise reporting service that consolidates data from multiple restaurants in the enterprise and posts it to a secure website designated for the customer company. The Executive Dashboard feature provides an overview of the entire restaurant enterprise, highlighting problem areas with color-coded alerts based on user-defined critical thresholds. The flexibility of Microsoft's® .Net platform allows each customer's InQuire site to be customized to align with their individual business. This enterprise reporting service satisfies a growing demand within the industry of having real-time operational visibility into a multiple site enterprise in hospitality.

Our Government business also showed solid growth in 2005 and continues to add new I/T outsourcing of telecommunication facilities and development programs to their roster of contract awards.

Government contract revenues rose 13% with both our I/T outsourcing and applied technology sectors contributing equally to our ongoing success. This segment of our business will remain strong as we exited the year with a $107 million backlog. Our Government business added several contracts across various lines in 2005. New contracts with the Navy included the I/T outsourcing of communications facility operations located in Lago Patria, Italy, Key West, FL and Chesapeake, VA. We added a new contract award with the Air Force at the Headquarters Air Force Civil Engineering Support Agency (AFCESA) and the Air Force civil engineering community at Tyndall AFB, Florida. Our Government business continues to also work with the U.S. Air Force and the Air Force Research Laboratory (AFRL) Surveillance Radar Technology branch in support of the Radar Development, Test and Integration Program, along with other Intelligence Agencies.

In late 2005, we added a new focus area involving the development of technologies to create computer information systems to support the planning of Air Force combat missions. Typically, through research and development government contracts, we are developing prototype systems and concepts for testing in operational commands, drawing on advanced technologies in the areas of decision aids, distributed processing and networking. After real life testing, successful concepts are incorporated into operational Command, Control & Communication Intelligence systems (C^3I) used by the United States Air Force and the Air National Guard. We feel very strongly that the added C^3I focus area to our Government business will enhance our reputation allowing us to compete for product implementation contracts of C^3I technologies within the military operational commands.

Last year our Cargo*Watch® system continued to evolve as a potential provider of a Logistics Management system and cargo security option to the shipping industry. We continue to work in tandem with the U.S. Departments of Transportation, Defense and Homeland Security. In brief, Cargo*Watch collects data concerning the status and location of cargos and intermodal assets in real-time through the use of GPS satellite capabilities and then communicating that data using the existing wireless networks. By working in conjunction with the Federal Government, we can extend the accessibility of sophisticated cargo tracking tools like Cargo*Watch throughout the shipping process.

This technology will provide an option for the tracking of cargo containers as well as other intermodal assets such as reefers, gensets and shipping tanks throughout the world. We are actively engaged with the DOT, DOD and DHS in developing and testing potential container security solutions, which includes assuring the integrity of containers while at the same time using the technology to create a viable logistics asset tracking system for the transportation industry. We are concentrating on enabling PAR to be competitive as a solutions provider to the commercial shipping industry. Our goal is to be a leading supplier of asset tracking systems which meet future shipping requirements and government mandates for container security.

In 2005 the Company received several mentions from the national media highlighting our success. We were ranked 15th fastest growing technology company in the United States by Business 2.0 Magazine and Fortune Magazine listed PAR 34th in their list of the top 100 fastest growing small companies. We are proud of our success and now focus on building upon this foundation.

In summary our Company had a very successful year. As of December 31, 2005 total assets had grown 11% to $125 million and shareholder's equity had increased 19% from a year earlier to $78.5 million. Cash flow from operating activities was $11.7 million.

On behalf of all shareholders, I would like to welcome our new independent director Maj. General Paul D. Nielsen, USAF (Ret.) to our Board of Directors. Dr. Nielsen has an extensive background in research and development, engineering, program management and leadership of large, nationally prominent research organizations. He currently is the Director & CEO of the Software Engineering Institute at Carnegie Mellon University in Pittsburgh, PA. Prior to this position, Dr. Nielsen retired from the U.S. Air Force in 2004 as a major general after serving for 32 years primarily in research and development. From 2000 through 2004, he was the commander of the Air Force Research Laboratory and the Technology Executive Officer for the Air Force. Dr. Nielsen has experience across the full spectrum of aerospace systems with special emphasis on space and C^3I technologies. The entire Board looks forward to working with him and relying on his knowledge and experience.

At this time, I would also like to acknowledge the contribution of J. Whitney Haney, who will be stepping down from our Board. Whit has been an important part of PAR's successful history. He has provided leadership, mentorship and guidance since 1988. I know the Board of Directors joins me in thanking him and in wishing him all the best in his forthcoming endeavors.

I again thank the many shareholders who have written, emailed and called to offer ideas and encouragement and to express their support for what PAR is trying to accomplish.

I would also like to thank our employees around the world for their commitment, talent and dedication to PAR and our customers. The Board appreciates the professionalism displayed by our employees, who have maintained a solid operational performance in a year of change and challenges.

We can now look back on a year of solid achievement. We have continued to invest in technologies and processes that will generate the innovative products of tomorrow. Above all we have maintained our clear vision and focus that will allow us to continue to build a sustainable competitive advantage in our businesses and generate shareholder value.

Thank you for your continued support and trust.

Regards,

John W. Sammon
Chairman, President & Chief Executive Officer

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, 2005.

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From _________ to _________

Commission File Number 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(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 ___ 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 ___ 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 ___

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. Yes ___ No _X_

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

Large Accelerated Filer ____ Accelerated Filer _X_ Non-Accelerated Filer ___

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

The aggregate market value of the voting stock held by non-affiliates of the registrant based on the average price as of February 28, 2006—$133,231,356.

The number of shares outstanding of registrant's common stock, as of February 28, 2006—14,154,870 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement in connection with its 2006 annual meeting of stockholders are incorporated by reference into Part III.

table of contents

"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 the Hospitality industry, future information technology outsourcing opportunities, an expected increase in funding by the U.S. Government relating to the Company's logistics management contracts, 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 that 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 that these assumptions and expectations will prove to have been correct or that 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 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.

PAR TECHNOLOGY CORPORATION
PART I

Item 1: Business

PAR Technology Corporation (PAR or the Company) operates two business segments: Hospitality and Government. PAR's largest subsidiary, ParTech, Inc. is a leading provider of management technology solutions, including hardware, software, professional and traditional services to businesses in the hospitality and retail industries. The Company is a dominant supplier of hospitality technology systems with over 40,000 systems installed in more than 100 countries. PAR's hospitality management software applications assist in the efficient operation of hospitality businesses and enterprises by managing data from end-to-end and maximizing profitability through more effective operations. PAR's professional services' mission is to assist businesses in achieving the full maximized potential of their hospitality technology investment.

PAR is a provider of professional services and enterprise business intelligence applications with solid long-term relationships with the restaurant industry's two largest corporations—McDonald's Corporation and Yum! Brands Inc. McDonald's has over 31,000 restaurants in more than 120 countries and PAR has been a selected provider of restaurant management technology systems and lifecycle support services to McDonald's since 1980. Yum! Brands (which includes Taco Bell, KFC, Pizza Hut, Long John Silver's and A&W Restaurants) has been a loyal PAR customer since the early 1980's. Yum! has over 33,000 units globally and PAR is the sole approved supplier of restaurant management technology systems to Taco Bell as well as the Point-of-Sale (POS) vendor of choice to KFC. Other significant hospitality chains where PAR is the POS vendor of choice are: Boston Market, Chick-fil-A, CKE Restaurants (including Hardees and Carl's Jr.), Carnival Cruise Lines, Loews Cineplex, Papa Murphy's and large franchisees of the above mentioned brands.

In the fourth quarter of 2005 the Company acquired PixelPoint® Technologies, Inc. a privately held hospitality technology company and a provider of restaurant management software applications for full/table service dining. PixelPoint is an innovative leader, developing and marketing POS, WebPOS, Wireless and Enterprise software suites for the table service restaurant industry. It currently markets software in multiple languages to virtually every major economic center worldwide. PixelPoint has over 5,000 installations in restaurants around the globe. Their integrated software solution includes HeadOffice™ enterprise management, PocketPOS™, a wireless application that is seamless to their connected capability and allows remote order taking in the dining room, Web-to-Go™, on-line ordering capability for customers via the internet, and MemberShare™, an in-store and enterprise level Loyalty and Gift Card information sharing application.

In the fourth quarter 2004 PAR acquired Springer-Miller Systems, a provider of hospitality management solutions that meet/exceed the technology needs of all types of Hospitality enterprises including city-center hotels, destination spa and golf properties, timeshare properties and casino resorts worldwide, setting the pace as a pioneer in the hospitality industry. PAR's SMS|Host® Hospitality Management System is distinguished from other property management systems with its integrated design and unique approach to guest service. The SMS|Host product suite, that includes more than 20 seamlessly integrated, guest-centric application modules, provides hotel/resort staff with the tools they need to personalize service, surpass guest expectations, and increase property revenues. PAR maintains a distinctive customer list in this business including Pebble Beach Resorts, The Four Seasons, Hard Rock Hotel & Casino, the Mandarin Oriental Hotel Group, and Destination Hotels & Resorts.

PAR also operates two Government contract subsidiaries, PAR Government Systems Corporation and Rome Research Corporation. PAR develops advanced technology systems for the Department of Defense and other Governmental agencies. Additionally, PAR provides information technology and communications support services to the U.S. Navy, U.S. Air Force and U.S. Army. PAR focuses its computer-based system design services on providing high quality technical products and services, ranging from experimental studies to advanced operational systems, within a variety of areas of research, including radar, image and signal processing, logistics management systems, and geospatial services and products. With more than three decades experience in this sector, PAR's Government engineering service business provides management and engineering services that include facilities operation and management. In addition, through Government-sponsored research and development, PAR has developed technologies with relevant commercial uses. A prime example of this "technology transfer" is the Company's point-of-sale technology, which was derived from research and development involving microchip processing technology sponsored by the Department of Defense.

Information concerning the Company's industry segments for the three years ended December 31, 2005 is set forth in Note 12 to the Consolidated Financial Statements included elsewhere herein.

The Company's common stock is traded on the New York Stock Exchange under the symbol "PTC." Our corporate headquarters are located at PAR Technology Park, 8383 Seneca Turnpike, New Hartford, New York 13413-4991; telephone number (315) 738-0600. Our website address is http://www.partech.com. Information contained on our website is not part of this prospectus.

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

Hospitality Segment

PAR operates three wholly-owned subsidiaries in the Hospitality business segment, ParTech, Inc., PAR Springer-Miller Systems, Inc., and PixelPoint ULC. PAR is a provider of integrated enterprise solutions to the hospitality industry. The Company's Point-of-Sale (POS) restaurant management technology integrates both cutting-edge software applications and the Company's Pentium®-based hardware platform. PAR's restaurant management system can host fixed as well as wireless order-entry terminals, may include kitchen printers or video monitors and/or third-party supplied peripherals networked via an Ethernet LAN, and is accessible to enterprise-wide network configurations. In addition, PAR is a leading provider of hospitality management solutions that satisfy the property management technology needs of an array of hospitality enterprises, including city-center hotels, destination spa and golf properties, timeshare properties and casino resorts worldwide. PAR also provides extensive systems integration and professional service capabilities to design, tailor and implement solutions that enable its customers to manage all aspects of data collection and processing for single or multiple site enterprises from a central location.

Products

The technology requirements of the major hospitality organizations include rugged, reliable, management systems capable of receiving, transmitting and coordinating large numbers of transactions that require a quick and accurate response. The Company's integrated hospitality management software applications permit its customers to configure their hospitality technology systems to meet their order entry, menu, food preparation, delivery and property management coordination needs while capturing all pertinent data concerning the transactions at the specific location. PAR's hospitality management systems are the result of more than 25 years of experience and knowledge combined with an in-depth understanding of the hospitality marketplace. This knowledge and expertise is reflected in the innovative product design, implementation capability and systems integration skills.

Software. The Company's range of restaurant software products cover the hospitality market with offerings that meet the requirements of large and small operators/corporations alike. For InFusion, PAR's restaurant-to-enterprise software suite, the focus continues to be on Quick Service Restaurants (QSR) and Quick Casual concepts with greater than 50 sites. The Company's GT/Exalt product has a target market of QSR and specifically, Taco Bell. It is designed for the small franchisee that is looking for a "turnkey" solution. With the acquisition of PixelPoint Technologies, Inc. in 2005, PAR's sales organization introduced software that is expected to increase and redefine market share. U.S. sales teams are focusing PixelPoint sales on the Quick-Casual customer with 50 or less restaurants, Coffee/Tea, Treaterie, and Table Service concepts.

InFusion is comprised of InTouch™ POS, InForm™ Back Office, InSynch™ Enterprise Configuration and InQuire™ Enterprise Reporting. PAR's InFusion suite is a robust, feature-rich product. InTouch is a multi-brand, multi-concept application, containing rich features and functions such as real-time mirror imaging of critical data, on-line graphical help and interactive diagnostics, all presented with intuitive graphical user interfaces. In addition, PAR's back office management software, InForm, allows restaurant owners to control critical food and labor costs using intuitive tools for forecasting, labor scheduling and inventory management. The InSynch Enterprise Configuration manager allows for business-wide management of diverse concept menus, security settings and system parameters all from one central location. InQuire Enterprise Reporting offers a web-based reporting leveraging the latest technology from Microsoft's .Net platform. InQuire's Executive Dashboard provides proactive business intelligence for the entire organization, as well as automated management reporting and process integration. In addition, the Company offers streamlined POS software, GT/Exalt. GT/Exalt provides restaurant owners with increased cash security, improved customer service and highly flexible kitchen and drive-thru functionality. The PixelPoint integrated software solution includes PixelPoint® POS, HeadOffice enterprise management, PocketPOS, a wireless application that is seamless to their connected capability and allows remote order taking in the dining room, Web-to-Go, on-line ordering capability for customers via the internet, and MemberShare, an in-store and enterprise level Loyalty and Gift Card information sharing application.

PAR is also a provider of software to the hotel/resort industry. Today, more and more hospitality-oriented businesses are managing information and leveraging their relationships with customers through integrated technology systems. There are two key and complementary aspects to system integration. One is to provide a seamless user interface to manage all aspects of the customer experience. The second is to ensure all aspects of customer activity become part of a single database. To accomplish this, every point of guest contact and every interaction with the customer must be managed within the same software. PAR's SMS|Host Hospitality Management System provides the most efficient automation process to handle business functions within a hotel/resort—a check-in, a spa appointment, or a retail purchase for instance. PAR's SMS|Host Hospitality Management System is distinguished from other property management systems by its truly integrated design and unique approach to guest service. The SMS|Host product suite, including over 20 seamlessly integrated, guest-centric modules, provides resort staff with the tools they need to personalize service, anticipate guest needs, and consistently exceed guest expectations. PAR SMS also offers Spa*Soft*® and SMS|Touch Fine Dining, two stand-alone applications. Spa*Soft* is designed to meet the unique needs of the spa industry. Focusing on activity scheduling, resource management, inventory management, point-of-sale and reporting, Spa*Soft* assists in the total management of hotel/resort spas and day spas. Because Spa*Soft* was specifically designed for the unique needs of the spa industry, it assists the spa staff in providing the individualized, impeccable guest service that their most important clients desire and expect. The SMS|Touch Fine Dining product suite is a robust fine dining point-of-sale system designed to increase revenue in the property's food and beverage outlets.

Hardware. In 2005, the Company introduced ViGo™, its 5th generation hardware platform, designed to be durable, scalable, integrated and highly serviceable. Both ViGo and POS4XP™, PAR's 4th generation hardware platform, are Pentium-designed systems developed to host the most powerful point-of-sale software applications in the hospitality industry. ViGo offers the hospitality, retail and entertainment industries an innovative design with more options than any other hardware platform in the marketplace. Both ViGo and POS4XP designs utilize open architecture with industry standard components and are compatible with the most popular operating systems. The hardware platforms support a distributed processing environment and incorporate an advanced hospitality management technology system, utilizing Intel microprocessors, standard PC expansion slots, Ethernet LAN, standard Centronics printer ports as well as USB ports. The hardware systems supply their industry-standard components with features for hospitality applications such as multiple video ports. The POS systems utilize distributed processing architecture to integrate a broad range of PAR and third-party peripherals and are designed to withstand the harsh hospitality environments. Both hardware platforms have a favorable price-to-performance ratio over the life of the system as a result of their PC compatibility, ease of expansion and high reliability design.

Systems Integration and Professional Services. PAR's ability to offer the full spectrum of integration, implementation, installation, maintenance, and support services is one of the Company's key differentiators. PAR continues to work in unison 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 business site. The Company provides its 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 is comprised of experienced individuals with diverse hospitality backgrounds in both hotels/resorts and restaurants. PAR has the knowledge and expertise to recommend property management solutions which can be used most effectively in hotels and restaurants, with emphasis on maximizing return on investment. In addition, the Company has secured strategic partnerships with third-party organizations to offer a variety of credit, debit and gift card payment options that allow quick service restaurants, convenience stores, gasoline stations and drugstores to process cashless payments quickly and efficiently. The Company's Technical Services department continuously evaluates new technologies and adopts those that allow PAR to provide significant improvements in customer's 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.

Installation and Training

In the United States, Canada, Europe, South Africa, the Middle East, Australia and Asia, PAR personnel provide installation, training and integration services on a fixed-fee basis as a normal part of the equipment purchase agreement. In certain areas of North and South America, Europe and Asia, the Company provides these integration services through third parties. Prior to system installation and user training, hotel/resort operators can attend a configuration seminar, during which attendees review internal policies and procedures, establish a software configuration and receive an overview of the PAR SMS|Host product suite. PAR provides complete application training for a site's staff as well as technical instruction for Information Systems personnel. The PAR training team is composed of experienced individuals with diverse hospitality and technical backgrounds.

Maintenance and Service

The Company offers a wide range of maintenance and support services as part of its total solution for its targeted hospitality technology markets. In the North American region, the Company provides comprehensive maintenance and integration services for the Company's equipment and systems, as well as those of third parties, through a 24-hour central telephone customer support and diagnostic service in Boulder, Colorado, as well as service centers in Europe, South Africa, the Middle East, Australia and Asia. The Company believes that its ability to address all support and maintenance requirements for a customer's hospitality technology network provides it with a clear competitive advantage. PAR also maintains regional support centers in three additional locations worldwide including Las Vegas, Nevada in the US, Kuala Lumpur in Malaysia, and Kettering in the UK, that focus upon servicing and maintaining PAR systems to the hotel/resort markets 24 hours a day, seven days a week. The Company maintains a field service network consisting of nearly 100 locations offering on-site service and repair, as well as depot repair, overnight unit replacements and spare unit rentals. At the time a hospitality technology system is installed, PAR trains customer employees and managers to ensure efficient and effective use of the system. If a problem occurs within the Company's manufactured technology system (hardware and software), PAR's current service management software products allow a service technician to diagnose the problem by telephone or by remotely dialing-in to the system, thus greatly reducing the need for on-site service calls.

The Company's service organization utilizes a suite of software applications from Clarify, Inc. (Clarify) as its Customer Resource Management tool. Clarify allows PAR to demonstrate compelling value and differentiation to its customers through the utilization of its extensive and ever-growing knowledge base to efficiently diagnose and resolve customer-service issues. Clarify also enables PAR to compile the kind of in-depth information it needs to spot trends and identify opportunities. A second software suite is a call center CRM solution and knowledge base known as Connect-Care by Firstwave. Connect-Care allows PAR to maintain a profile on each customer, their background, hardware and software details, client service history, and a problem-resolution database. Analysis of this data allows the Company to optimize customer service by identifying trends in calls and to work with customers to quickly resolve issues. The same system is used by the PAR SMS Research and Development team as a real-time communications tool between these technical departments to coordinate software change management.

Sales & Marketing

Sales in the hospitality technology market are often generated by initially obtaining the acceptance of the corporate chain as an approved vendor. Upon approval, marketing efforts are then directed to franchisees of the chain. Sales efforts are also directed toward franchisees of chains for which the Company is not an approved corporate vendor. The Company employs direct sales personnel in several sales groups. The Major Accounts Group works with large chain corporate customers typically operating more than 75 locations. The Domestic Sales Group targets franchisees of the major chain customers, as well as smaller chains within the United States. The International Sales Group seeks sales to major customers with locations overseas and to international chains that do not have a presence in the United States. The Company's Business Partner Development Sales Group targets non-foodservice markets such as retail, convenience, amusement parks, movie theaters, cruise lines, spas and other ticketing and entertainment venues. This group also works with third-party dealers and value-added resellers throughout the country. In 2005 PAR acquired the dealer/distribution channel of PixelPoint, that focuses on the table service sector of restaurants in particular. New sales in the hotel/resort technology market are often generated by leads, be it by word of mouth, internet searches, media coverage or trade show presence. Marketing efforts are conducted in the form of direct mail campaigns, advertising and targeted telesales calls. The Company employs direct sales personnel in several sales groups. The Domestic Sales Group targets independent, business class and luxury hotels and resorts and spas in the United States, Canada and the Caribbean. The International Sales Group seeks sales to independent hotels and resorts outside of the United States. The Corporate Accounts Sales Group works with high profile corporate and chain clients such as Mandarin Oriental Hotel Group, Destination Hotels and Resorts and Intrawest. 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 and initial penetration of new business channels for the SMS|Host, SMS|Touch and Spa*Soft* product lines worldwide.

Competition

The competitive landscape in the hospitality market is driven primarily by functionality, reliability, quality, pricing, service and support. The Company believes that its principal competitive advantages include its focus on an integrated technology solution offering, advanced development capabilities, in-depth industry knowledge and expertise, excellent product reliability, a direct sales force organization, and the quality of its support and quick service response. The markets in which the Company transacts business are highly competitive. Most of our major customers have approved several suppliers who offer some form of sophisticated hospitality technology system similar to the Company's. Major competitors include Panasonic, IBM Corporation, Radiant Systems, NCR, Hotel Information Systems, Visual One, Agilysis and Micros Systems.

Backlog

At December 31, 2005, the Company's backlog of unfilled orders for the Hospitality segment was approximately $9,800,000 compared to $18,534,000 a year ago. All of the present orders are expected to be delivered in 2006. The Hospitality segment orders are generally of a short-term nature and are usually booked and shipped in the same fiscal year.

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 our software. Research and development expenses were approximately $9,355,000 in 2005, $6,015,000 in 2004 and $4,779,000 in 2003. The Company capitalizes certain software costs in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software* *to be Sold, Leased or Otherwise Marketed*. See Note 1 to the Consolidated Financial Statements included in Item 15 for further discussion.

Manufacturing and Suppliers

The Company assembles its products from standard components such as integrated circuits and fabricated parts such as printed circuit boards, metal parts and castings, most of which are manufactured by others to the Company's specifications. The Company depends on outside suppliers for the continued availability of its components and parts. Although most items are generally available from a number of different suppliers, the Company purchases certain components from only one supplier. Items purchased from only one supplier include certain printers, base castings and electronic components. If such a supplier should cease to supply an item, the Company believes that new sources could be found to provide the components. However, added cost and manufacturing delays could result and adversely affect the business of the Company. 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, but believes none of these intellectual property rights provides a material competitive advantage. The Company relies upon non-disclosure agreements, license agreements and applicable domestic and foreign patent, copyright and trademark laws for protection of its intellectual property. To the extent such protective measures are unsuccessful, or the Company needs 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 the Company's business could be adversely impacted. The Company also licenses certain third party software with its products. While the Company has maintained a strong relationship with its licensors, there is no assurance that such relationship will continue or that the licenses will be continued under fees and terms acceptable to the Company.

Government Segment

PAR operates two wholly-owned subsidiaries in the Government business segment, PAR Government Systems Corporation (PGSC) and Rome Research Corporation (RRC). These companies provide the U.S. Department of Defense (DoD) and other federal and state government organizations with a wide range of technical services and products. Significant areas in which the Company is involved include: design, development, and integration of state-of-the-art imagery intelligence systems for information archive, retrieval, and processing; advanced research and development for imaging sensors; development and operations of logistics management systems; and engineering and support services for Government information technology and communications facilities.

The Company's offerings cover the entire development cycle for Government systems, including requirements analysis, design specification, development, implementation, installation, test and evaluation.

Information Systems and Technology

The Information Systems and Technology (IS&T) business sector develops integrated systems for imaging information archiving, processing, exploitation, and visualization. IS&T is the system integrator for the Multi-Sensor Integration facility at the Air Force Research Laboratory-Rome Research Site and is a key developer of the National Geospatial-Intelligence Agency (NGA) Image Product Library (IPL). The IPL provides access to a virtual network of archives in support of the operational users of imagery. The Company has a substantial systems integration contract to support interoperability of new and emerging commercial imagery exploitation and data management systems for U.S. Air Force (USAF) operations. Since 1986, the Company has been a key contributor to the full-scale engineering development for the Joint Surveillance Target Attack Radar System (Joint STARS) and more recently, for the Affordable Moving Surface Target Engagement (AMSTE) program. The Company provides systems engineering and software development for radar technologies that detect, track and target ground vehicles.

Signal and Image Processing

The Signal and Image Processing (SIP) business sector supports the development and implementation of complex sensor systems including the collection and analysis of sensor data. The SIP group has developed sensor concepts, algorithms, and real-time systems to address the difficult problems of finding low-contrast targets against clutter background (e.g., finding cruise missiles, fighter aircraft, and personnel against heavy terrain backgrounds), detecting man-made objects in dense foliage, and performing humanitarian efforts in support of the removal of land mines with ground penetrating radar. The Company also supports numerous technology demonstrations for the DoD, including a multi-national NATO exercise of wireless communications interoperability. As part of this demonstration, the Company designed and built the Software Radio Development System (SoRDS) for test and evaluation of communications waveforms. The Company has extended this technology into public safety and law enforcement via the Software Adaptive Advanced Communications (SAAC®) system, a multi-channel communications gateway intended to solve the problem of wireless communications interoperability. The Company also supports Navy airborne infrared surveillance systems through the development of advanced optical sensors.

Geospatial Software and Modeling

The Geospatial Software and Modeling (GS&M) business sector performs water resources modeling; Geographic Information Systems (GIS) based data management, and geospatial information technology development. In particular, the Company's Flood*Ware™ software tool and methodology is being employed by New York State in support of Federal Emergency Management Agency's Map Modernization Program. Similar technologies are used in support of water quality modeling and assessment applications for the NYC Watershed Protection Program.

Logistics Management Systems

The Logistics Management Systems (LMS) business sector focuses on the design, development, deployment and commercialization of the CargoWatch® Logistics Information Management System. CargoWatch is a comprehensive, end-to-end solution for the monitoring and management of transport assets and cargo throughout the intermodal (i.e., port, highway, rail, and ocean) transportation lifecycle. The CargoWatch system is being implemented under a multi-year Cooperative Agreement with the U.S. Department of Transportation/Maritime Administration (DOT/MARAD) with funds specifically authorized by Congress for CargoWatch under the Transportation Equity Act for the 21st Century (TEA-21) in 1998. CargoWatch uses state-of-the-art technology to acquire Global Positioning System (GPS) location and equipment status data. Wireless communication networks then transmit the data to the LMS Operations Center, and a powerful geospatial database customizes the data to meet the needs of each customer and provide it to the customer over the Internet or via direct linkage to existing (back-office) information systems.

Information Technology and Communications Support Services

The Company provides a wide range of technical and support services to sustain mission critical components of the Department of Defense Global Information Grid. 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. The Company supports these DoD communications facilities, as well as other telecommunications equipment and information systems, at customer locations in and outside of the continental United States. The various facilities, operating 24 hours a day, are integral to the command and control of the nation's air, land and naval forces, and those of United States coalition allies.

Test Laboratory and Range Operations

The Company provides management, engineering, and technical services under several contracts with the U.S. Air Force and the U.S. Navy. These services include the planning, execution, and evaluation of tests at government ranges and laboratories operated and maintained by the Company. Test activities include unique components, specialized equipment, and advanced systems for radar, communications, electronic counter-measures, and integrated weapon systems. The Company also develops complex measurement systems in several defense-related areas of technology.

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 its contracts are for one-year to five-year terms. There are several risks associated with Government contracts. For example, contracts may be terminated for the convenience of the Government 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's business with the U.S. Government is also subject to other risks unique to the defense industry, such as reduction, modification, or delays of contracts or subcontracts if the Government's requirements, budgets, or policies or regulations change. 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. Additionally, the Defense Contract Audit Agency on a regular basis audits the books and 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 2003 and have not resulted in any material adjustments.

Marketing and Competition

Marketing begins with collecting information from a variety of sources concerning the present and future requirements of the Government and other potential customers for the types of technical expertise provided by the Company. Although the Company believes it is positioned well in its chosen areas of image and signal processing, information technology/ communications and engineering services, competition for Government contracts is intense. Many of the Company's competitors are major corporations, or their subsidiaries, such as Lockheed-Martin, Raytheon, Northrop-Grumman, BAE, Harris, and SAIC that are significantly larger and have substantially greater financial resources than the Company. The Company also competes with many smaller companies that target particular segments of the Government market. Contracts are obtained principally through competitive proposals in response to solicitations from Government agencies and prime contractors. The principal competitive factors are past performance, the ability to perform, price, technological capabilities, management capabilities and service. In addition, the Company sometimes obtains contracts by submitting unsolicited proposals. Many of the Company's DoD customers are now migrating to commercial software standards, applications, and solutions. In that manner, the Company is utilizing its Internal Research and Development to migrate existing solutions into software product lines that will support the DoD geospatial community (i.e., NGA, USAF, etc.).

Backlog

The dollar value of existing Government contracts at December 31, 2005, net of amounts relating to work performed to that date, was approximately $106,614,000, of which $35,470,000 was funded. At December 31, 2004, the comparable amount was approximately $111,793,000, of which $35,107,000 was funded. Funded amounts represent those amounts committed under contract by Government agencies and prime contractors. The December 31, 2005 Government contract backlog of $106,614,000 represents firm, existing contracts. Approximately $51,000,000 of this amount is expected to be completed in calendar year 2006, as funding is committed.

Employees

As of December 31, 2005, the Company had 1,539 employees, approximately 54% of whom are engaged in the Company's Hospitality segment, 43% of whom are in the Government segment, and the remainder are 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 that it will be able to fulfill its near-term needs for technical staff.

Approximately 21% 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 CEO 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 December 19, 2005 with no qualifications.

Item 1A: Risk Factors

We operate in a dynamic and rapidly changing environment that involves 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.

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 the fiscal years ended December 31, 2005, 2004 and 2003, aggregate sales to our top two Hospitality segment customers, McDonald's and Yum! Brands, amounted to 41%, 51% and 50%, respectively, of total revenues. 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 that our current customers will continue to place orders with us, or that we will be able to obtain orders from new customers.

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 that we will be able to continue funding research and development at levels sufficient to enhance our current product offerings, or that 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 that 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 that 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 met the needs of the marketplace due to technological developments and emerging industry standards, our software products may no longer retain any significant market share. If this were to occur, we could be required to record a charge against capitalized software costs, which amount to $3.7 million as of December 31, 2005.

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

For the fiscal years ended December 31, 2005, 2004 and 2003, we derived 73%, 71% and 70%, respectively, of our total revenues from the Hospitality industry, primarily the quick service restaurant marketplace. 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 either exit the industry or delay, cancel or reduce planned expenditures for our products. Although we believe we can assist 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 that our profitability and growth will continue.

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

For the fiscal years ended December 31, 2005, 2004 and 2003, we derived 27%, 29% and 30%, respectively, of our total revenues from contracts to provide technical services to U.S. Government agencies and defense contractors. Contracts with U.S. Government agencies typically provide that such contracts are terminable 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.

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 64% of the revenue that we derived from Government contracts for the year ended December 31, 2005 came from fixed-price or time-and-material contracts. The balance of the revenue that we derived from Government contracts in 2005 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.

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.

There are several suppliers who 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 industry makes it likely that we will face competition from new products designed by companies not currently competing with us. These new products may have features not currently available on our Hospitality products. We believe that our competitive ability depends on our total solution offering, our product development and systems integration capability, our direct sales force and our customer service organization. There is no assurance, however, that 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, primarily signal and image processing, information technology outsourcing and engineering services. Many of our competitors are, or are subsidiaries of, companies such as Lockheed-Martin, Raytheon, Northrop-Grumman, BAE, Harris and SAIC. These companies are larger and have substantially greater financial resources than we do. We also compete with smaller companies that target particular segments of the Government market. These companies may be better positioned to obtain contracts through competitive proposals. Consequently, there are no assurances that we will continue to win Government contracts as a prime contractor or subcontractor.

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, 2005, 2004 and 2003, our net revenues from sales outside the United States were 11%, 9% and 11%, respectively, of the Company's total revenues. We anticipate that 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 that these factors will not have a material adverse affect on our future international sales and, consequently, on our operating results.

OUR BUSINESS DEPENDS ON A LARGE NUMBER OF HIGHLY QUALIFIED PROFESSIONAL EMPLOYEES AND, IF WE ARE NOT ABLE TO RECRUIT AND RETAIN A SUFFICIENT NUMBER OF THESE EMPLOYEES, WE WOULD NOT BE ABLE TO PROVIDE HIGH QUALITY SERVICES TO OUR CURRENT AND FUTURE CUSTOMERS, WHICH WOULD HAVE AN ADVERSE EFFECT ON OUR REVENUES AND OPERATING RESULTS.

We actively compete for qualified professional staff. The availability or lack thereof of qualified professional staff may affect our ability to develop new products and to provide services and meet the needs of our customers in the future. An inability to fulfill customer requirements due to a lack of available qualified staff at agreed upon salary rates may adversely impact our operating results in the future.

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 totaling approximately $20.6 million and $9.9 million at December 31, 2005, respectively, resulting primarily from several business acquisitions. At least annually, we evaluate goodwill and identifiable intangible assets for impairment based on the fair value of the operating business unit to which these assets relates. This estimated fair value could change if we are unable to achieve operating results at the levels that have been forecasted, the market valuation of such companies decreases based on transactions involving similar companies, or there is a permanent, negative change in the market demand for the services offered by the business unit. These changes could result in an impairment of the existing goodwill and identifiable intangible assets balances that could require a material non-cash charge to our results of operations.

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 Government	Principal executive offices, manufacturing, research and development laboratories, computing facilities	138,500
Rome, NY	Government	Research and development	40,900
Stowe, VT	Hospitality	Sales, service and research and development	26,000
Boulder, CO	Hospitality	Service	20,500
Sydney, Australia	Hospitality	Sales and service	9,100
Las Vegas, NV	Hospitality	Service	8,800
Boca Raton, FL	Hospitality	Research and development	8,700
Vaughn, Canada	Hospitality	Sales, service and research and development	8,000
Toronto, Canada	Hospitality	Sales, service and research and development	7,700

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

The Company owns its principal facility and adjacent space in New Hartford, NY. 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.

Item 3: Legal Proceedings

The Company is subject to legal proceedings which arise in 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.

Part II

Item 5: Market for the Registrant's Common Stock, 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 - PTC). At December 31, 2005, there were approximately 487 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, 2005 as reported by New York Stock Exchange:

	2005		2004	
Period	Low	High	Low	High
First Quarter	$ 7.47	$ 10.68	$ 5.19	$ 7.47
Second Quarter	$ 10.28	$ 22.30	$ 6.44	$ 8.24
Third Quarter	$ 13.10	$ 25.60	$ 5.47	$ 7.18
Fourth Quarter	$ 13.26	$ 23.60	$ 5.90	$ 7.90

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 that no cash dividends will be paid in the foreseeable future.

On November 14, 2005, the Company's Board of Directors declared a 3 for 2 stock split in the form of a stock dividend that was distributed on January 6, 2006 to shareholders of record on December 12, 2005. All share and per share data in these consolidated financial statements and footnotes have been retroactively restated as if the stock split had occurred as of the earliest period presented.

Item 6: Selected Financial Data

SELECTED CONSOLIDATED STATEMENT OF INCOME DATA
(in thousands, except per share amounts)

The following selected historical consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
	2005	2004	2003	2002	2001
Net revenues	$ 205,639	$ 174,884	$ 139,770	$ 133,681	$ 114,354
Cost of sales	$ 150,053	$ 137,738	$ 110,777	$ 105,225	$ 89,001
Gross margin	$ 55,586	$ 37,146	$ 28,993	$ 28,456	$ 25,353
Selling, general & administrative	$ 30,867	$ 22,106	$ 19,340	$ 19,540	$ 16,774
Provision for income taxes	$ (5,358)	$ (3,729)	$ (1,593)	$ (884)	$ (621)
Income from continuing operations	$ 9,432	$ 5,635	$ 2,792	$ 2,623	$ 2,080
Basic earnings per share from continuing operations	$ .68	$ .43	$ .22	$ .22	$ .18
Diluted earnings per share from continuing operations	$ .64	$ .41	$ .21	$ .21	$ .18

SELECTED CONSOLIDATED BALANCE SHEET DATA
(in thousands)

	December 31,				
	2005	2004	2003	2002	2001
Current assets	$ 84,492	$ 77,696	$ 74,195	$ 69,070	$ 67,795
Current liabilities	$ 43,661	$ 45,159	$ 29,816	$ 31,743	$ 39,118
Total assets	$ 125,149	$ 111,752	$ 87,147	$ 85,122	$ 88,915
Long-term debt	$ 1,948	$ 2,005	$ 2,092	$ 2,181	$ 2,268
Shareholders' equity	$ 78,492	$ 63,574	$ 55,239	$ 51,198	$ 47,529

On November 14, 2005, the Company's Board of Directors declared a 3 for 2 stock split in the form of a stock dividend that was distributed on January 6, 2006 to shareholders of record on December 12, 2005. All share and per share data in these consolidated financial statements and footnotes have been retroactively restated as if the stock split had occurred as of the earliest period presented.

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

Forward-Looking Statement

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 the Hospitality industry, future information technology outsourcing opportunities, an expected increase in funding by the U.S. Government relating to the Company's logistics management contracts, 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 that 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 that these assumptions and expectations will prove to have been correct or that 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 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.

Overview

PAR is a global designer, manufacturer and marketer of hospitality technology systems. We also are a provider to the Federal Government, and its agencies, of engineering services and applied technology. The primary end markets for our products and services are:

- restaurant, hotels/resorts, entertainment, and retail industries for the integrated technologies of transaction processing and data capture for certain enterprises
- the U.S. military and a broad range of government agencies

The Company's hospitality technology products are used in a variety of applications by numerous customers. The Company encounters competition in all of its markets (restaurants, hotels, theaters, etc.) and competes primarily on the basis of product design/features, product quality/reliability, price, customer service and delivery capability. There has been a trend amongst our hospitality customers to consolidate their lists of approved vendors to companies that have a global reach, can achieve quality and delivery standards, have multiple product offerings, R&D capability, and be competitive with their pricing. PAR believes that its global presence as a hospitality technology provider is an important competitive advantage as it allows the Company to provide innovative products, with a significant delivery capability, globally to its multinational customers like McDonald's, Yum! Brands and Mandarin Oriental Hotel Group. During 2005 the Company acquired PixelPoint Technologies of Toronto, Ontario, Canada. PixelPoint designs software specifically for the table service segment of the restaurant industry and the Company views this business as a natural progression of the Company to be the dominant supplier of hospitality technology across several vertical industries. In 2005 the Company had a significant win in being selected by Papa Murphy's restaurants as their sole in-store technology provider which included hardware, software and services. Papa Murphy's has nearly 900 restaurants and has aggressive growth plans in terms of new store openings in the next several years.

PAR's strategy is to provide complete integrated technology systems and services and a high level of customer service in the markets in which it competes. The Company focuses its research and development efforts to develop cutting-edge products that meet and exceed our customers' needs and also have high probability for broader market appeal and success. PAR also focuses upon efficiency in our operations and controlling costs. This is achieved through the investment in modern production technologies, managing purchasing processes and functions.

PAR operates two wholly-owned subsidiaries in the Government business segment, PAR Government Systems Corporation (PGSC) and Rome Research Corporation (RRC). As a long-standing Government contractor, PAR develops advanced technology systems for the U.S. Department of Defense and other U.S. Governmental agencies. Additionally, PAR provides information technology and communications support services to the U.S. Navy, U.S. Air Force and U.S. Army. PAR focuses its computer-based system design services on providing high quality technical products and services, ranging from experimental studies to advanced operational systems, within a variety of areas of research, including radar, image and signal processing, logistic management systems, and geospatial services and products. PAR's Government engineering service business provides management and engineering services that include facilities operation and management. In December 2005, PAR acquired C^3I Associates, a government technology services business and PAR will continue to seek out similar companies for partnership or acquisition as we expand our depth in this segment. In 2005 PAR was awarded several new contracts with the U.S. Navy, including one for the operation of a Navy I/T facility in Italy, several awards with the General Services Administration and the International Broadcast Bureau. The Company will continue to execute its strategy of leveraging its core technical capabilities and performance into related technical areas and an expanding customer base. The Company will seek to accelerate this growth through strategic acquisitions of businesses that broaden the Company's technology and/or business base.

The Company's intention is to continue to expand our customer base and solidify our leading position in the industries to which we market by:

- Developing integrated solutions
- Continuing to grow our global presence in growth markets
- Focusing on customer needs
- Encouraging entrepreneurial corporate attitude and spirit
- Fostering a mindset of controlling cost
- Pursuing strategic acquisitions

Summary

We believe we can continue to be successful in our two core business segments—Hospitality Technology and Government Contracting—because of our focus and industry expertise. In addition, our operations will benefit from our efficient supply chain and economies of scale as we leverage our suppliers and distribution operations. We remain committed to streamlining our operations and improving our return on invested capital through a variety of initiatives.

The following table sets forth the Company's revenues by reportable segment for the year ended December 31 (in thousands):

	2005	2004	2003
Revenues:			
Hospitality	$ 149,457	$ 124,969	$ 98,088
Government	56,182	49,915	41,682
Total consolidated revenue	$ 205,639	$ 174,884	$ 139,770

The following discussion and analysis highlights items having a significant effect on operations during the three year period ended December 31, 2005. This discussion may not be indicative of future operations or earnings. It should be read in conjunction with the audited annual consolidated financial statements and notes thereto and other financial and statistical information included in this report.

Results of Operations — 2005 Compared to 2004

The Company reported revenues of $205.6 million for the year ended December 31, 2005, an increase of 18% from the $174.9 million reported for the year ended December 31, 2004. The Company's net income for the year ended December 31, 2005 was $9.4 million, or $.64 diluted net income per share, compared to net income of $5.6 million and $.41 per diluted share for the same period in 2004.

Product revenues from the Company's Hospitality segment were $91.1 million for the year ended December 31, 2005, an increase of 18% from the $77.5 million recorded in 2004. This increase of $13.6 million is due to an $8.5 million increase in sales to domestic customers. Key restaurant customers contributing to this increase were Chick-fil-A, CKE and Papa Murphy's. Also contributing were sales to numerous resort and spa customers. In the international market place, sales of the Company's products increased $5.1 million. The primary reason for this growth was sales to McDonald's restaurants. Sales to the Company's resort and spa customers also contributed to the international growth.

Customer Service revenues are also generated by the Company's Hospitality segment. The Company's service offerings include system integration, installation, training, twenty-four hour help desk support and various depot and on-site service options. Customer Service revenues were $58.3 million for the year ended December 31, 2005, an increase of 23% from the $47.5 million for the same period in 2004. This increase was due primarily to systems integration and software maintenance revenues associated with the Company's resort and spa customers. Additionally, the Company increased its field service and support center revenue for its restaurant customers by 14% or $2.8 million due to expansion of the Company's customer base. This was partially offset by a decline in installation revenue due to a greater number of customer's performing self-installation.

Contract revenues from the Company's Government segment were $56.2 million for the year ended December 31, 2005, an increase of 13% when compared to the $49.9 million recorded in the same period in 2004. Contributing to this growth was a $2.1 million increase in information technology outsourcing revenue from contracts for facility operations at critical U.S. Department of Defense telecommunication sites across the globe. These outsourcing operations provided by the Company directly support U.S. Navy, Air Force and Army operations as they seek to convert their military information technology communications facilities into contractor-run operations and to meet new requirements with contractor support. Also contributing to this increase was a $1.8 million increase in revenue under the Company's Logistics Management Program. The balance of the increase was due to several contracts in applied technology.

Product margins for the year ended December 31, 2005 were 41.4%, an increase of 760 basis points from the 33.8% for the year ended December 31, 2004. This increase in margins was primarily attributable to higher software revenue. This software revenue was generated from the Company's resort, spa and restaurant customers. The increase was also due to a large integration project for a major customer in 2004 that involved lower margin peripheral hardware products. This project has been substantially completed in 2005.

Customer Service margins were 24.2% for the year ended December 31, 2005 compared to 16.2% for the same period in 2004, an increase of 800 basis points. This increase was due to service integration and software maintenance revenue at higher margins associated with the Company's resort and spa products. The increase was also due to additional service contracts from restaurant customers and the Company's ability to leverage its service infrastructure.

Contract margins were 6.7% for the year ended December 31, 2005 versus 6.5% for the same period in 2004. In 2005, the margin increase resulted from higher margins on certain fixed price contracts partially offset by higher than anticipated award fees in 2004 on certain image and digital processing contracts. The most significant components of contract costs in 2005 and 2004 were labor and fringe benefits. For the year ended December 31, 2005 labor and fringe benefits were $39.4 million or 75% of contract costs compared to $35.9 million or 77% of contract costs for the same period in 2004.

Selling, general and administrative expenses are virtually all related to the Company's Hospitality segment. Selling, general and administrative expenses for the year ended December 31, 2005 were $30.9 million, an increase of 40% from the $22.1 million expended for the same period in 2004. The increase was primarily attributable to a rise in selling and marketing expenses due to sales of the Company's new resort and spa software products and the Company's traditional hardware products. Also contributing to the increase was an investment in the Company's restaurant sales force and the cost of compliance with the Sarbanes-Oxley regulations.

Research and development expenses relate primarily to the Company's Hospitality segment. However, in 2004, approximately 4% of these expenses related to the Company's Logistics Management Program. Research and development expenses were $9.4 million for the year ended December 31, 2005, an increase of 49% from the $6.3 million recorded in 2004. The increase was primarily attributable to the Company's investment in its recently acquired resort and spa products. The Company also continues to invest in its restaurant hardware and software products.

Partially offsetting this increase was a decline in the investment in the Company's Logistic Management Program as new U.S. Government funding is in place.

Amortization of identifiable intangible assets was $1 million for the year ended December 31, 2005 compared to $245,000 for 2004. The increase is primarily due to a full year of amortization relating to the acquisition of Springer-Miller Systems, Inc. on October 1, 2004.

Other income, net, was $743,000 for the year ended December 31, 2005 compared to $1.1 million for the same period in 2004. Other income primarily includes rental income and foreign currency gains and losses. The decrease in 2005 resulted primarily from a decline in foreign currency gains when compared to 2004.

Interest expense represents interest charged on the Company's short-term borrowing requirements from banks and from long-term debt. Interest expense was $287,000 for the year ended December 31, 2005 as compared to $295,000 in 2004. The Company experienced a higher borrowing interest rate in 2005 which was offset by a lower average borrowings outstanding in 2005 when compared to 2004.

For the year ended December 31, 2005, the Company's effective income tax rate was 36.2%, compared to 39.8% in 2004. The variance from the federal statutory rate in 2005 was primarily due to state income taxes. The variance from the federal statutory rate in 2004 was primarily due to state and foreign income taxes.

Results of Operations — 2004 Compared to 2003

The Company reported revenues of $174.9 million for the year ended December 31, 2004, an increase of 25% from the $139.8 million reported for the year ended December 31, 2003. The Company's net income for the year ended December 31, 2004 was $5.6 million, or $.41 net income per diluted share, compared to net income of $2.4 million and $.18 per diluted share for the same period in 2003.

Product revenues from the Company's Hospitality segment were $77.5 million for the year ended December 31, 2004, an increase of 29% from the $60.2 million recorded in 2003. The primary factor contributing to the increase was sales to McDonald's which increased 75% or $14.9 million over 2003. Due to its recent strong financial performance, McDonald's was investing in capital equipment to upgrade its restaurants, triggering increased sales of the Company's products. An additional factor contributing to the increase in product revenues was a $4.2 million increase in sales to CKE Restaurants. Software revenue from the Company's new resort and spa customers also contributed to this growth. A partially offsetting factor was a $2.3 million decline in sales to Loews Complex due to the timing of customer requirements.

Customer Service revenues are also generated by the Company's Hospitality segment. The Company's service offerings include system integration, installation, training, twenty-four hour help desk support and various depot and on-site service options. Customer Service revenues were $47.5 million for the year ended December 31, 2004, an increase of 25% from the $37.9 million for the same period in 2003. This increase was due primarily to a 52% or $3.9 million increase in installation revenue that is directly related to the growth in the Company's product revenue. Additionally, service revenues associated with the Company's new resort and spa customers accounted for 8% of this increase. All other service area revenues increased 7% primarily due to increased support contracts and maintenance service activity relating to the continued expansion of the Company's customer base.

Contract revenues from the Company's Government segment were $49.9 million for the year ended December 31, 2004, an increase of 20% when compared to the $41.7 million recorded in the same period in 2003. Contributing to this growth was a $5.5 million or 24% increase in information technology outsourcing revenue from contracts for facility operations at critical U.S. Department of Defense telecommunication sites across the globe. These outsourcing operations provided by the Company directly support U.S. Navy, Air Force and Army operations as they seek to convert their military information technology communications facilities into contractor-run operations and to meet new requirements with contractor support. Also contributing to this increase was a $2.6 million or 48% increase in revenue from research contracts involving Imagery Information Technology.

Product margins for the year ended December 31, 2004 were 33.8%, a decline from 35.2% for the year ended December 31, 2003. This decrease was the result of a large integration project for a major customer during 2004 that involved lower margin peripheral hardware products. This decline was partially offset by increased absorption of fixed manufacturing costs as production volume increased. Also partially offsetting this decline was an increase in higher margin software revenue from the Company's resort and spa customers.

Customer Service margins were 16.2% for the year ended December 31, 2004 compared to 15.1% for the same period in 2003. This increase was due to service integration and software maintenance revenue associated with the Company's resort and spa products. This was partially offset by increased use of third parties (which results in lower margins than installations performed by internal personnel) to assist the Company with the major integration project discussed above.

Contract margins were 6.5% for the year ended December 31, 2004 versus 5.0 % for the same period in 2003. The increase in contract margins is primarily attributable to a higher than anticipated performance-based award fee on an imagery information technology contract. Additionally, the Company received a favorable contract modification on a particular information technology outsourcing contract. This was partially offset by start up costs and certain new awards in 2004. The most significant components of contract costs in 2004 and 2003 were labor and fringe benefits. For the year ended December 31, 2004 labor and fringe benefits were $35.9 million or 77% of contract costs compared to $30.5 million or 77% of contract costs for the same period in 2003.

Selling, general and administrative expenses are virtually all related to the Company's Hospitality segment. Selling, general and administrative expenses for the year ended December 31, 2004 were $22.1 million, an increase of 14% from the $19.3 million expended for the same period in 2003. The increase was primarily attributable to a rise in selling and marketing expenses due to sales of the Company's new resort and spa software products and the Company's traditional hardware products.

Research and development expenses relate primarily to the Company's Hospitality segment. However in 2004 and 2003, approximately 4% and 10%, respectively, of these expenses related to the Company's Logistics Management Program. Research and development expenses were $6.3 million for the year ended December 31, 2004, an increase of 18% from the $5.3 million recorded in 2003. The increase was primarily attributable to the Company's investment in its newly acquired resort and spa products. The Company also increased its investment in its hardware products.

Other income, net, was $1.1 million for the year ended December 31, 2004 compared to $582,000 for the same period in 2003. Other income primarily includes rental income and foreign currency gains and losses. The increase in 2004 resulted primarily from a rise in foreign currency gains when compared to 2003.

Interest expense represents interest charged on the Company's short-term borrowing requirements from banks and from long-term debt. Interest expense declined 45% to $295,000 for the year ended December 31, 2004 as compared to $540,000 in 2003 primarily due to a lower average amount outstanding in 2004 as compared to 2003.

For the year ended December 31, 2004, the Company's effective income tax rate was 39.8%, compared to 36.3% in 2003. The variance from the federal statutory rate in 2004 was primarily due to state and foreign income taxes. The variance from the federal statutory rate in 2003 was primarily due to state income taxes partially offset by a decrease in the valuation allowance for certain tax credits.

Liquidity and Capital Resources

The Company's primary sources of liquidity have been cash flow from operations and lines of credit with various banks. Cash provided by continuing operations was $11.7 million for the year ended December 31, 2005 compared to $19.7 million for 2004. In 2005, cash flow was generated primarily from operating profits, the tax benefit generated from the exercise of stock options and the timing of vendor payments for material purchases. This was partially offset by an increase in accounts receivable and inventory. In 2004, cash flow benefited from operating profits for the period, a reduction in inventory, and timing of salary and benefit payments.

Cash used in investing activities was $9.5 million for the year ended December 31, 2005 versus $15.8 million for the same period in 2004. In 2005, capital expenditures were $1.7 million and were principally for manufacturing and research and development equipment. Capitalized software costs relating to software development of Hospitality segment products were $617,000 in 2005. In 2004, capital expenditures were $1.6 million and were primarily for manufacturing equipment and information technology equipment and software for internal use. Capitalized software costs relating to software development of Hospitality segment products were $804,000 in 2004. In 2005, the Company used $7.2 million in cash for acquisitions, the majority of which was for PixelPoint Technologies. In 2004, cash used for the acquisition of Springer-Miller Systems, Inc. was $13.4 million.

Cash used by financing activities was $5 million for the year ended December 31, 2005 versus $3.8 million of cash provided for 2004. In 2005, the Company reduced its short-term bank borrowings by $6.7 million and received $1.8 million from the exercise of employee stock options. During 2004, the Company increased its short-term bank borrowings by $3.3 million and received $585,000 from the exercise of employee stock options.

The Company has an aggregate availability of $20,000,000 in bank lines of credit. One line totaling $12,500,000 bears interest at the bank borrowing rate (6.6% at December 31, 2005) and is subject to loan covenants including a debt to tangible net worth ratio of 1.4 to 1; a minimum working capital requirement of at least $25,000,000; and a debt coverage ratio of 4 to 1. The total amount of credit available under this facility at a given time is based on (a) 80% of the Company's accounts receivable under 91 days outstanding attributable to the Company's Hospitality segment and (b) 40% of the Company's inventory, excluding work in process. The total amount of this facility was available at December 31, 2005. This line expires on April 30, 2006. The second line of $7,500,000 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 (7.25% at December 31, 2005). This facility contains certain loan covenants including a leverage ratio of not greater than 4 to 1 and a fixed charge coverage ratio of not less than 4 to 1. This line expires on October 30, 2006. Both lines are collateralized by certain accounts receivable and inventory. The Company was in compliance with all loan covenants on December 31, 2005. At December 31, 2005 and 2004, there was $3,500,000 and $10,246,000 outstanding under these lines, respectively. The weighted average interest rate paid by the Company during 2005 was 5.6% and 4.2% during 2004. The Company anticipates that it will renew these lines for a three-year period at similar terms.

The Company has a $2 million mortgage loan on certain real estate. The Company's future principal payments under this mortgage are as follows (in thousands):

2006	$ 76
2007	81
2008	88
2009	95
2010	1,684
	$ 2,024

The Company future minimum obligations under non-cancelable operating leases are as follows (in thousands):

2006	$ 2,180
2007	1,382
2008	1,256
2009	984
2010	461
Thereafter	167
	$ 6,430

During fiscal year 2006, the Company anticipates that its capital requirements will be approximately $2 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 the 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 at least 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, 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 that 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.

Critical Accounting Policies

The Company's consolidated financial statements are based on the application of accounting principles generally accepted in the United States of America (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, intangible assets and taxes.

Revenue Recognition Policy

The Company recognizes revenue generated by the Hospitality segment using the guidance from SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and the AICPA Statement of Position (SOP) 97-2, "Software Revenue Recognition," and other applicable revenue recognition guidance and interpretations. Product revenue consists of sales of the Company's standard point-of-sale and property management systems of the Hospitality segment. The Company recognizes revenue from the sale of complete restaurant systems (which primarily includes hardware or hardware and software) upon delivery to the customer site or upon installation for certain software products. For restaurant systems that are self-installed by the customer or an unrelated third party and for component sales or supplies, the Company recognizes revenue at the time of shipment. In addition to product sales, the Company may provide installation and training services, and also offers maintenance contracts to its customers. Installation and training service revenues are recognized as the services are performed. The Company's other service revenues, consisting of support, field and depot repair, are provided to customers either on a time and materials basis or under its maintenance contracts. Services provided on a time and materials basis are recognized as the services are performed. Service revenues from maintenance contracts are recognized ratably over the related contract period.

The Company recognizes revenue in its Government segment using the guidance from SEC Staff Accounting Bulletin No. 104, "Revenue Recognition." 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 primarily on a straight-line basis over the life of the fixed-price 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.

Accounts Receivable

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. We continuously monitor 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, we cannot guarantee that we will continue to experience the same credit loss rates that we have 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 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 under the requirements of Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Software development costs incurred prior to establishing technological feasibility are charged to operations and included in research and development costs. Software development costs incurred after establishing feasibility are capitalized and amortized over the estimated economic life when the product is available for general release to customers.

Goodwill

Following Financial Accounting Standards Board issuance of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," (SFAS 142), the Company tests all goodwill for impairment annually, or more frequently if circumstances indicate potential impairment. The Company has elected to annually test for impairment in the fourth quarter of its fiscal year.

Taxes

The Company has significant amounts of deferred tax assets that are reviewed for recoverability and valued accordingly. These assets are evaluated by using estimates of future taxable income and the impact of tax planning strategies. Valuations related to tax accruals and assets can be impacted by changes to tax codes, changes in statutory tax rates and the Company's estimates of its future taxable income levels.

Item 7A: Quantitative and Qualitative Disclosures About Market Risk

INFLATION

Inflation had little effect on revenues and related costs during 2005. Management anticipates that margins will be maintained at acceptable levels to minimize the effects of inflation, if any.

INTEREST RATES

As of December 31, 2005, the Company has $2 million in variable rate long-term debt and $3.5 million in variable rate short-term debt. The Company believes that an adverse change in interest rates of 100 basis points would not have a material impact on our business, financial conditions, results of operations or cash flows.

FOREIGN CURRENCY

The Company's primary exposures relate to certain non-dollar denominated sales and operating expenses in Europe and Asia. These primary currencies are the Euro, the Australian dollar and the Singapore dollar. Management believes that foreign currency fluctuations should not have a significant impact on our business, financial conditions, results of operations or cash flows due to the low volume of business affected by foreign currencies.

Item 8: Financial Statements and Supplementary Data

The Company's 2005 Consolidated financial statements, together with the report thereon of KPMG LLP dated March 10, 2006, are included elsewhere herein. See Item 15 for a list of Financial Statements.

Item 9A: Controls and Procedures

1. Evaluation of Disclosure Controls and Procedures.

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d -15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Annual Report on Form

10-K, conducted under the supervision of and with the participation of the Company's chief executive officer and chief financial officer and such officers have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

2. Management's Report on Internal Control over Financial Reporting.

PAR's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. For the year ended December 31, 2005, the Company engaged the accounting firm of Bowers & Company CPAs, PLLC to assist the Company document its internal controls over financial reporting.

A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of inherent limitations due to, for example, the potential for human error or circumvention of controls, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PAR's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated framework. Based on its assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria. This evaluation excluded the internal control over financial reporting of PixelPoint Technologies (PixelPoint) which the Company acquired on October 4, 2005. Management did not have adequate time to gather sufficient evidence about the design and operating effectiveness of internal control over financial reporting for PixelPoint from the date of acquisition through December 31, 2005, therefore, management was not able to perform an evaluation with respect to the effectiveness of internal control over financial reporting for PixelPoint. As of December 31, 2005, the total assets, net revenues, and income from continuing operations before provision for income taxes of PixelPoint comprised 6.1%, 0.4%, and 1.7% of the consolidated total assets, net revenues, and income from continuing operations before provision for income taxes of the Company.

PAR's independent registered public accounting firm, KPMG LLP, has issued a report on the Company's assessment of its internal control over financial reporting. This report appears below.

3. Report of Independent Registered Public Accounting Firm.

The Board of Directors and Shareholders
PAR Technology Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that PAR Technology Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). PAR Technology Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that PAR Technology Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by COSO. Also, in our opinion, PAR Technology Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

PAR Technology Corporation acquired PixelPoint Technologies, Inc. on October 4, 2005, and management excluded from its assessment of the effectiveness of PAR Technology Corporation's internal control over financial reporting as of December 31, 2005, PixelPoint Technologies, Inc.'s internal control over financial reporting associated with total assets, net revenues, and income from continuing operations before provision for income taxes comprising 6.1%, 0.4 %, and 1.7% of the consolidated total assets, net revenues, and income from continuing operations before provision for income taxes of PAR Technology Corporation and subsidiaries as of and for the year ended December 31, 2005. Our audit of internal control over financial reporting of PAR Technology Corporation also excluded an evaluation of the internal control over financial reporting of PixelPoint Technologies, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PAR Technology Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 10, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Syracuse, New York
March 10, 2006

4. Changes in internal controls. During the period covered by this Annual Report on Form 10-K, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13 a-15(f)) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10: Directors and Executive Officers of the Registrant

The Directors and Executive Officers of the Company and their respective ages and positions are:

Name	Age	Position
Dr. John W. Sammon, Jr.	66	Chairman, President and Chief Executive Officer, PAR Technology Corporation
Charles A. Constantino	66	Executive Vice President and Director, PAR Technology Corporation
Sangwoo Ahn	67	Director, PAR Technology Corporation
J. Whitney Haney	71	Director, PAR Technology Corporation
Kevin R. Jost	51	Director, PAR Technology Corporation
James A. Simms	46	Director, PAR Technology Corporation
Gregory T. Cortese	56	Chief Executive Officer & President ParTech, Inc., General Counsel and Secretary, PAR Technology Corporation
Albert Lane, Jr.	64	President, PAR Government Systems Corporation and Rome Research Corporation
Ronald J. Casciano	52	Vice President, Chief Financial Officer and Treasurer, PAR Technology Corporation

The Company's Directors are elected in classes with staggered three-year terms with one class being elected at each annual meeting of shareholders. The Directors serve until the next election of their class and until their successors are duly elected and qualified. The Company's officers are appointed by the Board of Directors and hold office at the will of the Board of Directors.

The principal occupations for the last five years of the Directors and Executive Officers of the Company are as follows:

Dr. John W. Sammon, Jr. is the founder of the Company and has been the Chairman, President and Chief Executive Officer since its incorporation in 1968.

Mr. Charles A. Constantino has been a Director of the Company since 1971 and Executive Vice President since 1974.

Mr. Sangwoo Ahn was appointed a Director of the Company in March, 1986. Mr. Ahn is the Chairman of the Board, Quaker Fabric Corp. since 1993 and previously was the partner of Morgan, Lewis, Githens & Ahn.

Mr. J. Whitney Haney retired as President of ParTech, Inc. in 1998. He has been a Director of the Company since 1988.

Mr. Kevin R. Jost was appointed a Director of the Company in May, 2004. Mr. Jost has been the President and Chief Executive Officer of Hand Held Products, Inc. since 1999.

Mr. James A. Simms was appointed a Director of the Company in October, 2001. Mr. Simms is currently a senior investment banker with Janney, Montgomery, Scott.

Mr. Albert Lane, Jr. was appointed to President, Rome Research Corporation in 1988. Mr. Lane was additionally appointed President of PAR Government Systems Corporation in 1997.

Mr. Gregory T. Cortese was named President, ParTech, Inc. in June 2000 in addition to General Counsel and Secretary of PAR Technology Corporation. Previously, Mr. Cortese was the Vice President, Law and Strategic Development since 1998.

Mr. Ronald J. Casciano, CPA, was promoted to Vice President, Chief Financial Officer, Treasurer of PAR Technology Corporation in June, 1995.

Item 11: Executive Compensation

The information required by this item will appear under the caption “Executive Compensation” in our 2006 definitive proxy statement for the annual meeting of stockholders in May 2006 and is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will appear under the caption “Security Ownership Of Management And Certain Beneficial Owners” in our 2006 definitive proxy statement for the annual meeting of stockholders in May 2006 and is incorporated herein by reference.

Item 13: Certain Relationships and Related Transactions

The information required by this item will appear under the caption “Executive Compensation” in our 2006 definitive proxy statement for the annual meeting of stockholders in May 2006 and is incorporated herein by reference.

Item 14: Principal Accountant Fees and Services

The response to this item will appear under the caption “Principal Accountant Fees and Services” in our 2006 definitive proxy statement for the annual meeting of stockholders to be held in May 2006 and is incorporated herein by reference.

PART IV

Item 15: Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Form 10-K Page

(a) Documents filed as a part of the Form 10-K

(1) Financial Statements:

(b) Reports on Form 8-K

On October 27, 2005, PAR Technology Corporation furnished a report on Form 8-K pursuant to Item 2.02 (Results of Operations and Financial Condition) of that Form relating to its financial information for the quarter ended September 30, 2005, as presented in a press release October 27, 2005 and furnished thereto as an exhibit.

On November 15, 2005, PAR Technology Corporation furnished a report on Form 8-K pursuant to Item 5.02 (Appointment of New Director) and Item 8.01 (Other Events) of that Form relating to the approved increase in the number of Board seats from 6 to 7 and Dr. Paul Nielsen being elected to fill the newly created seat.

On November 15, 2005, PAR Technology Corporation furnished a report on Form 8-K pursuant to Item 8.01 (Other Events) and Item 9.01 (Financial Statements and Exhibits) of that Form relating to the Company approving a 3 for 2 split as presented in a press release dated November 15, 2005 and furnished thereto as an exhibit.

On December 19, 2005, PAR Technology Corporation furnished a report on Form 8-K pursuant to Item 8.01 (Other Events) of that Form pertaining to the availability of certain Corporate Governance documents.

(c) Exhibits

See list of exhibits on page 47.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
PAR Technology Corporation:

We have audited the consolidated financial statements of PAR Technology Corporation and subsidiaries as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PAR Technology Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of PAR Technology Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Our report dated March 10, 2006 on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2005, contains an explanatory paragraph that states PAR Technology Corporation acquired PixelPoint Technologies, Inc. on October 4, 2005, and management excluded from its assessment of the effectiveness of PAR Technology Corporation's internal control over financial reporting as of December 31, 2005, PixelPoint Technologies, Inc.'s internal control over financial reporting associated with total assets, net revenues, and income from continuing operations before provision for income taxes comprising 6.1%, 0.4 %, and 1.7% of the consolidated total assets, net revenues, and income from continuing operations before provision for income taxes of PAR Technology Corporation and subsidiaries as of and for the year ended December 31, 2005. Our audit of internal control over financial reporting of PAR Technology Corporation also excluded an evaluation of the internal control over financial reporting of PixelPoint Technologies, Inc.

KPMG LLP

Syracuse, New York
March 10, 2006

CONSOLIDATED BALANCE SHEETS
(in thousands except share amounts)

	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 4,982	$ 8,696
Accounts receivable-net	40,781	32,702
Inventories-net	29,562	27,047
Income tax refunds	879	—
Deferred income taxes	5,690	6,634
Other current assets	2,598	2,617
Total current assets	84,492	77,696
Property, plant and equipment-net	8,044	8,123
Goodwill	20,622	15,379
Intangible assets-net	9,904	9,235
Other assets	2,087	1,319
	$ 125,149	$ 111,752
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 76	$ 90
Borrowings under lines of credit	3,500	10,246
Accounts payable	12,703	9,486
Accrued salaries and benefits	9,725	8,072
Accrued expenses	2,203	2,998
Customer deposits	3,973	4,861
Deferred service revenue	11,332	9,083
Net liabilities of discontinued operation	149	323
Total current liabilities	43,661	45,159
Long-term debt	1,948	2,005
Deferred income taxes	201	194
Other long-term liabilities	847	820
Commitments and contingent liabilities		
Shareholders' Equity:		
Preferred stock, $.02 par value, 1,000,000 shares authorized	—	—
Common stock, $.02 par value, 19,000,000 shares authorized; 15,914,958 and 15,208,698 shares issued; 14,136,654 and 13,403,184 outstanding	318	304
Capital in excess of par value	37,271	31,459
Retained earnings	47,442	38,010
Accumulated other comprehensive loss	(611)	(181)
Treasury stock, at cost, 1,778,304 and 1,805,514 shares	(5,928)	(6,018)
Total shareholders' equity	78,492	63,574
	$ 125,149	$ 111,752

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share amounts)

	Year ended December 31, 2005	2004	2003
Net revenues:			
Product	$ 91,130	$ 77,503	$ 60,223
Service	58,327	47,466	37,865
Contract	56,182	49,915	41,682
	205,639	174,884	139,770
Costs of sales:			
Product	53,443	51,287	39,024
Service	44,205	39,769	32,140
Contract	52,405	46,682	39,613
	150,053	137,738	110,777
Gross margin	55,586	37,146	28,993
Operating expenses:			
Selling, general and administrative	30,867	22,106	19,340
Research and development	9,355	6,270	5,310
Amortization of identifiable intangible assets	1,030	245	—
	41,252	28,621	24,650
Operating income	14,334	8,525	4,343
Other income, net	743	1,134	582
Interest expense	(287)	(295)	(540)
Income from continuing operations before provision for income taxes	14,790	9,364	4,385
Provision for income taxes	(5,358)	(3,729)	(1,593)
Income from continuing operations	9,432	5,635	2,792
Discontinued operations:			
Loss from operations of discontinued component	—	—	(570)
Income tax benefit	—	—	207
Loss from discontinued operations	—	—	(363)
Net income	$ 9,432	$ 5,635	$ 2,429
Earnings per share:			
Basic:			
Income from continuing operations	$ .68	$ .43	$ .22
Loss from discontinued operations	$ —	$ —	$ (.03)
Net income	$ .68	$ .43	$ .19
Diluted:			
Income from continuing operations	$ .64	$ .41	$ .21
Loss from discontinued operations	$ —	$ —	$ (.03)
Net income	$ .64	$ .41	$ .18
Weighted average shares outstanding			
Basic	13,792	13,044	12,657
Diluted	14,648	13,845	13,291

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year ended December 31, 2005	2004	2003
Net income	$ 9,432	$ 5,635	$ 2,429
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(430)	(138)	773
Comprehensive income	$ 9,002	$ 5,497	$ 3,202

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)	Common Stock Shares	Common Stock Amount	Capital in excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity
Balances at December 31, 2002	14,655	$ 293	$ 28,828	$ 29,946	$ (816)	(2,116)	$ (7,053)	$ 51,198
Net income				2,429				2,429
Issuance of common stock upon the exercise of stock options, net of tax benefit	294	6	833					839
Translation adjustments					773			773
Balances at December 31, 2003	14,949	299	29,661	32,375	(43)	(2,116)	(7,053)	55,239
Net income				5,635				5,635
Issuance of common stock upon the exercise of stock options, net of tax benefit	260	5	948					953
Issuance of treasury stock for business acquisition			850			310	1,035	1,885
Translation adjustments					(138)			(138)
Balances at December 31, 2004	15,209	304	31,459	38,010	(181)	(1,806)	(6,018)	63,574
Net income				9,432				9,432
Issuance of common stock upon the exercise of stock options, net of tax benefit	706	14	5,360					5,374
Issuance of treasury stock for business acquisition			452			28	90	542
Translation adjustments					(430)			(430)
Balances at December 31, 2005	15,915	$ 318	$ 37,271	$ 47,442	$ (611)	(1,778)	$ (5,928)	$ 78,492

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 9,432	$ 5,635	$ 2,429
Adjustments to reconcile net income to net cash provided by operating activities:			
Net loss from discontinued operations	—	—	363
Depreciation and amortization	3,755	2,812	2,815
Provision for bad debts	1,063	689	968
Provision for obsolete inventory	3,942	4,007	2,957
Tax benefit of stock option exercises	3,544	368	161
Deferred income tax	1,213	3,014	809
Changes in operating assets and liabilities:			
Accounts receivable	(9,101)	246	(7,001)
Inventories	(6,419)	1,046	(577)
Income tax refunds	(879)	—	—
Other current assets	132	178	166
Other assets	(756)	(825)	(20)
Accounts payable	2,705	567	(70)
Accrued salaries and benefits	1,653	2,119	846
Accrued expenses	(831)	(43)	394
Customer deposits	(888)	(132)	—
Deferred service revenue	2,249	42	(757)
Other long-term liabilities	847	—	—
Net cash provided by continuing operating activities	11,661	19,723	3,483
Net cash used in discontinued operations	(174)	(235)	(88)
Net cash provided by operating activities	11,487	19,488	3,395
Cash flows from investing activities:			
Capital expenditures	(1,682)	(1,598)	(415)
Capitalization of software costs	(617)	(804)	(809)
Business acquisitions, net of cash acquired	(7,223)	(13,364)	—
Net cash used in investing activities	(9,522)	(15,766)	(1,224)
Cash flows from financing activities:			
Net borrowings (payments) under line-of-credit agreements	(6,746)	3,257	(2,560)
Payments of long-term debt	(71)	(86)	(85)
Proceeds from the exercise of stock options	1,830	585	678
Net cash provided (used) by financing activities	(4,987)	3,756	(1,967)
Effect of exchange rate changes on cash and cash equivalents	(692)	(249)	773
Net increase (decrease) in cash and cash equivalents	(3,714)	7,229	977
Cash and cash equivalents at beginning of year	8,696	1,467	490
Cash and cash equivalents at end of year	$ 4,982	$ 8,696	$ 1,467
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 304	$ 280	$ 553
Income taxes, net of refunds	1,586	537	291

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of PAR Technology Corporation and its subsidiaries (ParTech, Inc., PAR Springer-Miller Systems, Inc., PixelPoint ULC, PAR Government Systems Corporation, Rome Research Corporation and Ausable Solutions, Inc.), collectively referred to as the "Company." All significant intercompany transactions have been eliminated in consolidation.

Revenue recognition

The Company recognizes revenue generated by the Hospitality segment using the guidance from SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and the AICPA Statement of Position (SOP) 97-2, "Software Revenue Recognition," and other applicable revenue recognition guidance and interpretations. Product revenue consists of sales of the Company's standard point-of-sale and property management systems of the Hospitality segment. The Company recognizes revenue from the sale of complete restaurant systems (which primarily includes hardware or hardware and software) upon delivery to the customer site or upon installation for certain software products. For restaurant systems that are self-installed by the customer or an unrelated third party and for component sales or supplies, the Company recognizes revenue at the time of shipment. In addition to product sales, the Company may provide installation and training services, and also offers maintenance contracts to its customers. Installation and training service revenues are recognized as the services are performed. The Company's other service revenues, consisting of support, field and depot repair, are provided to customers either on a time and materials basis or under its maintenance contracts. Services provided on a time and materials basis are recognized as the services are performed. Service revenues from maintenance contracts are recognized ratably over the related contract period.

The Company recognizes revenue in its Government segment using the guidance from SEC Staff Accounting Bulletin No. 104, "Revenue Recognition." 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 primarily on a straight-line basis over the life of the fixed-price contract. The Company's obligation under these contracts is simply 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.

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.

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 and changes in technology to provide for excess and obsolescence reserves to properly value inventory.

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to twenty-five years. Expenditures for maintenance and repairs are expensed as incurred.

Warranties

The Company's products are sold with a standard warranty for defects in material and workmanship. The standard warranty offered by the Company is for one year, although certain sales have shorter warranty periods. The Company establishes an accrual for estimated warranty costs at the time revenue is recognized on the sale. This estimate is based on projected product reliability using historical performance data.

Income taxes

The provision for income taxes is based upon pretax earnings with deferred income taxes provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company records a valuation allowance when necessary to reduce deferred tax assets to their net realizable amounts. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Other long-term liabilities

In 2005, other long-term liabilities relates to the Company's deferred compensation plan (see Note 10). In 2004, other long-term liabilities consisted of an obligation owed to a third party as a result of the acquisition of Springer-Miller Systems, Inc. Based on the provisions of the purchase agreement, this $820,000 liability did not come to fruition and was properly adjusted as a reduction to goodwill in 2005.

Foreign currency

The assets and liabilities for the Company's international operations are translated into U.S. dollars using year-end exchange rates. Income statement items are translated at average exchange rates prevailing during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity under the heading Accumulated Other Comprehensive Loss. Exchange gains and losses on intercompany balances of a long-term investment nature are also recorded as a translation adjustment and are included in Accumulated Other Comprehensive Income (Loss). Foreign currency transaction gains and losses, are included in net income.

Other income

The components of other income for the three years ending December 31, are as follows:

	Year ended December 31, (in thousands)		
	2005	2004	2003
Currency gains	$ 186	$ 502	$ 95
Rental income-net	320	349	441
Other	237	283	46
	$ 743	$ 1,134	$ 582

Identifiable intangible assets

The Company capitalizes certain costs related to the development of computer software used in its Hospitality products segment under the requirements of Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Software development costs incurred prior to establishing technological feasibility are charged to operations and included in research and development costs. Software development costs incurred after establishing feasibility 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, is computed using the straight-line method over the remaining estimated economic life of the product, generally three years. Amortization of capitalized software costs amounted to $834,000, $996,000 and $1,185,000 in 2005, 2004, and 2003, respectively.

The Company acquired identifiable intangible assets in connection with its acquisitions in 2005 and 2004. Amortization of identifiable intangible assets amounted to $1,030,000 in 2005 and $245,000 in 2004. See Note 2 for additional details.

The components of identifiable intangible assets are:

	Year ended December 31, (in thousands)	
	2005	2004
Software costs	$ 5,655	$ 5,599
Customer relationships	3,744	2,700
Trademarks (non-amortizable)	2,444	2,100
Other	578	300
	12,421	10,699
Less accumulated amortization	(2,517)	(1,464)
	$ 9,904	$ 9,235

The future amortization of these intangible assets is as follows (in thousands):

2006	$ 1,855
2007	1,598
2008	1,529
2009	995
2010	562
Thereafter	921
	$ 7,460

The Company has elected to test for impairment of identifiable intangible assets during the fourth quarter of its fiscal year. There was no impairment of identifiable intangible assets in 2005, 2004 and 2003.

Stock split

On November 14, 2005, the Company's Board of Directors declared a 3 for 2 stock split in the form of a stock dividend that was distributed on January 6, 2006 to shareholders of record on December 12, 2005. All share and per share data in these consolidated financial statements and footnotes have been retroactively restated as if the stock split had occurred as of the earliest period presented.

Stock-based compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." In April 2005, the Securities and Exchange Commission released a final rule "Amendment to Rule 4-01(a) of Regulation S-X Regarding the Compliance Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*." This rule defers the date the Company is required to adopt SFAS 123R until January 1, 2006. SFAS 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair values at the fiscal year 2005, 2004 and 2003 grant dates for those awards, consistent with the requirements of SFAS 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been adjusted to the proforma amounts indicated below (in thousands, except per share data):

		2005	2004	2003
Net income		$ 9,432	$ 5,635	$ 2,429
Proforma compensation expense, net of tax		(410)	(354)	(118)
Proforma net income		$ 9,022	$ 5,281	$ 2,311
Earnings per share:				
As reported	- Basic	$ .68	$ .43	$ .19
	- Diluted	$ .64	$ .41	$ .18
Proforma	- Basic	$ .65	$ .40	$ .18
	- Diluted	$ .62	$ .38	$ .17

The estimated weighted average fair value of options granted is $4.78, $1.90 and $1.01 for 2005, 2004 and 2003, respectively.

The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2005, 2004 and 2003:

	2005	2004	2003
Risk-free interest rate	3.5%	3.2%	2.0%
Dividend yield	N/A	N/A	N/A
Volatility factor	43%	42%	44%
Expected option life	5 Years	5 Years	5 Years

In management's opinion the existing models do not necessarily provide a reliable measure of the fair value of its stock options because the Company's stock options have characteristics significantly different from those of traded options for which the Black-Scholes model was developed, and because changes in the subjective assumptions can materially affect fair value estimates.

Earnings per share

Earnings per share are calculated in accordance with Statement of Financial Accounting Standards No. 128 "Earnings per Share," which specifies the computation, presentation, and disclosure requirements for earnings per share (EPS). It requires the presentation of basic and diluted EPS. Basic EPS excludes all dilution and is based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The following is a reconciliation of the weighted average shares outstanding for the basic and diluted EPS computations (in thousands except share and per share data):

	2005	2004	2003
Net income	$ 9,432	$ 5,635	$ 2,429
Basic:			
Shares outstanding at beginning of year	13,403	12,833	12,539
Weighted shares issued during the year	389	211	118
Weighted average common shares, basic	13,792	13,044	12,657
Earnings per common share, basic	$ .68	$ .43	$ .19
Diluted:			
Weighted average common shares, basic	13,792	13,044	12,657
Dilutive impact of stock options	856	801	634
Weighted average common shares, diluted	14,648	13,845	13,291
Earnings per common share, diluted	$ .64	$ .41	$ .18

Use of estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include: the carrying amount of property, plant and equipment, identifiable intangible assets and goodwill, warranty reserve, valuation allowances for receivables, inventories and deferred income tax assets. Actual results could differ from those estimates.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Following Financial Accounting Standards Board issuance of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," (SFAS 142), the Company tests all goodwill for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. The Company has elected to annually test for impairment in the fourth quarter of its fiscal year. There was no impairment of goodwill in 2005, 2004 or 2003.

The following table reflects the changes in goodwill during the year (in thousands):

	Year ended December 31,	
	2005	2004
Balance at beginning of year	$ 15,379	$ 598
Acquisition of businesses during the year	6,075	14,781
Purchase accounting adjustment related to prior year acquisition	(820)	—
Change in foreign exchange rates during the period	(12)	—
Balance at end of year	$ 20,622	$ 15,379

Accounting for impairment or disposal of long-lived assets

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we evaluate the accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS 144 requires recognition of impairment of long-lived assets or asset groups if the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. If the carrying value of a long-lived asset or asset group is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset or asset group for assets to be held and used, or the amount by which the carrying value exceeds the fair market value less cost to dispose for assets to be disposed. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. No impairment was identified during 2005, 2004 or 2003.

As further described in Note 3, the Company decided to dispose of its Industrial segment in August 2002 and adopted the provisions of SFAS 144 regarding the measurement, recognition and disclosure of this discontinued operation.

Reclassifications

Amounts in prior years' consolidated financial statements are reclassified whenever necessary to conform with the current year's presentation.

New accounting pronouncements

In December 2004, Financial Accounting Standards Board (FASB) issued SFAS No. 123R, a revision of Statement No. 123, Accounting for Stock-Based Compensation. This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. The Company is required to adopt SFAS 123R at the beginning of the first quarter of fiscal 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity-based compensation for all new and modified grants after January 1, 2006. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair values previously calculated for disclosure purposes under SFAS 123R. At December 31, 2005, the aggregate value of unvested options, as determined using a Black-Scholes option valuation model, was $534,000. Upon adoption of SFAS 123R, a majority of this amount will be recognized over the remaining four year vesting period of these options.

In November 2004, the FASB published SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. Statement 151 amends the guidance in Chapter 4, "Inventory Pricing" of ARB No. 43 and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges. SFAS 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. SFAS 151 is effective for the Company's 2006 fiscal year and is not expected to have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB published SFAS No. 154, Accounting Changes and Error Corrections. Statement 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Changes in Interim Financial Statements. The Statement changes the accounting for, and reporting of, a change in accounting principle. SFAS 154 requires retrospective application to prior period's financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005 and is not expected to have a material impact on the Company's consolidated financial statements. Early application is permitted for accounting changes and corrections of errors during fiscal years beginning after June 1, 2005.

Note 2 — Business Acquisition

On October 4, 2005, the Company and its newly formed, wholly-owned Canadian subsidiary, PixelPoint, ULC (the Canadian Subsidiary), completed their acquisition of PixelPoint Technologies, Inc. (PixelPoint) pursuant to which the Canadian Subsidiary acquired all of the stock of PixelPoint. The purchase price was $7.5 million and consisted of $542,000 in Company common stock (27,210 shares of PAR Technology Corporation common stock issued out of treasury) a promissory note for $671,000 and the remainder in cash. The Company also incurred $344,000 in direct acquisition costs relating to this purchase. The purchase price is also subject to price contingencies based upon future revenue performance against certain established targets. Located in suburban Toronto, Ontario, PixelPoint Technologies, Inc. is a supplier of hospitality solutions to full-service restaurants around the globe.

On December 6, 2005, the Company also acquired C^3I Associates (C^3I), a Government technology services business. The Company paid $589,000 in cash and assumed certain liabilities.

On October 1, 2004, PAR Technology Corporation (the Company) and its wholly-owned subsidiary, PAR Springer-Miller Systems, Inc. (PSMS), completed their previously-announced transaction with Springer-Miller Systems, Inc. (Springer-Miller) and John Springer-Miller pursuant to which PSMS acquired substantially all of the assets (including the 100% equity interests in each of Springer-Miller International, LLC and Springer-Miller Canada, ULC), and assumed certain liabilities, of Springer-Miller. Springer-Miller, based in Stowe, Vermont, is a provider of hospitality management solutions for all types of hospitality enterprises including resort hotels, destination spa and golf properties, timeshare properties and casino resorts worldwide.

The purchase price of the net assets acquired was $14,985,000 plus approximately $3,227,000 (an amount equal to the cash and cash equivalents held by Springer-Miller and its subsidiaries at the closing date of the acquisition, October 1, 2004). The Company also incurred $264,000 in direct acquisition costs relating to this purchase. The purchase price consisted of $1,885,000 in Company common stock (310,516 shares of PAR Technology Corporation common stock issued out of treasury) and the remainder in cash.

The total purchase price for each of these acquisitions was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed by the Company based on their estimated fair values as of the respective closing date of the acquisitions. Identifiable intangible assets recorded in the acquisitions are tested for impairment in accordance with the provisions of SFAS 142. The following table presents the estimated fair value of the assets acquired and liabilities assumed:

	2005		2004
(in thousands)	PixelPoint	C^3I	PSMS
Cash and cash equivalents	$ 32	$ —	$ 3,227
Other current assets	185	8	2,298
Property, plant and equipment	122	—	858
Other assets	671	—	—
Intangible assets	1,634	290	7,900
Goodwill	5,539	536	14,781
Total assets acquired	8,183	834	29,064
Deferred revenues and customer deposits	—	—	8,087
Other current liabilities	303	245	1,681
Long-term liabilities	—	—	820
Total liabilities assumed	303	245	10,588
Purchase price, including acquisition related costs	$ 7,880	$ 589	$ 18,476

The identifiable intangible assets acquired and their estimated useful lives (based on third party valuation) are as follows:

(in thousands)	PixelPoint	C^3I	PSMS	Useful Life
Software costs	$ 258	$ —	$ 2,800	5 Years
Customer relationships	774	270	2,700	7 - 8 Years
Trademarks	344	—	2,100	Indefinite
Others	258	20	300	3 - 7 Years
	$ 1,634	$ 290	$ 7,900	

On an unaudited proforma basis, assuming the completed acquisitions had occurred as of the beginning of the periods presented, the consolidated results of the Company would have been as follows (in thousands, except per share amounts):

	Year ended December 31,		
	2005	2004	2003
Revenues	$ 207,552	$ 189,266	$ 153,733
Net income	$ 9,550	$ 5,570	$ 1,143
Earnings per share:			
Basic	$ .69	$ .42	$ .09
Diluted	$ .65	$ .39	$ .09

The unaudited proforma financial information presented above gives effect to purchase accounting adjustments which have resulted or are expected to result from the acquisition. This proforma information is not necessarily indicative of the results that would actually have been obtained had the companies been combined for the periods presented.

Note 3 — Business Operations

During the third quarter of 2002, the Company decided to close down its unprofitable Industrial segment, Ausable Solutions, Inc., following a trend of continuous losses. The overall downturn in the global economy and specifically the manufacturing and warehousing industries, coupled with the diminishing capital expenditures of the Company's industrial customers, prevented the Company from being profitable in this particular business segment. The decision to shut down this unit has allowed the Company to focus on its two core businesses, Hospitality and Government. The Company believes that the decision to exit the Industrial segment will not have a negative impact on the Company's continuing operations. The Company's Industrial business did not have common customers with its Hospitality and Government contract businesses. The Company recorded a net loss from operations of the discontinued component of $363,000 in 2003. Liabilities of discontinued operations were $149,000 and $323,000 at December 31, 2005 and 2004, respectively.

Note 4 — Accounts Receivable

The Company's net accounts receivable consist of:

	December 31, (in thousands)	
	2005	2004
Government segment:		
Billed	$ 8,222	$ 8,376
Advanced billings	(2,251)	(1,729)
	5,971	6,647
Hospitality segment:		
Accounts receivable-net	34,810	26,055
	$ 40,781	$ 32,702

At December 31, 2005 and 2004, the Company had recorded allowances for doubtful accounts of $1,748,000 and $2,299,000, respectively, against Hospitality accounts receivable.

Note 5 — Inventories

Inventories are used primarily in the manufacture, maintenance, and service of Hospitality systems. Inventories are net of related reserves. The components of inventories-net are:

	December 31, (in thousands)	
	2005	2004
Finished goods	$ 7,217	$ 6,415
Work in process	1,874	1,296
Component parts	4,693	2,898
Service parts	15,778	16,438
	$ 29,562	$ 27,047

The Company records reserves for shrinkage and excess and obsolete inventory. At December 31, 2005 and 2004, these amounts were $4,189,000 and $3,982,000, respectively.

Note 6 — Property, Plant and Equipment

The components of property, plant and equipment are:

	December 31, (in thousands)	
	2005	2004
Land	$ 253	$ 253
Buildings and improvements	5,632	5,687
Rental property	5,426	5,304
Furniture and equipment	19,013	26,860
	30,324	38,104
Less accumulated depreciation and amortization	22,280	29,981
	$ 8,044	$ 8,123

The estimated useful lives of buildings and improvements and rental property are twenty to twenty-five years. The estimated useful lives of furniture and equipment ranges from three to eight years. Depreciation expense recorded was $1,883,000, $1,571,000 and $1,630,000 for 2005, 2004 and 2003, respectively.

The Company subleases a portion of its headquarters facility to various tenants. Rent received from these leases totaled $1,038,000, $1,104,000 and $1,114,000 for 2005, 2004 and 2003, respectively.

Future minimum rent payments due to the Company under these leases are as follows (in thousands):

2006	$ 858
2007	101
	$ 959

The Company leases office space under various operating leases. Rental expense on these operating leases was approximately $2,138,000, $1,527,000 and $1,200,000 for 2005, 2004, and 2003, respectively.

Future minimum lease payments under all noncancelable operating leases are (in thousands):

2006	$ 2,180
2007	1,382
2008	1,256
2009	984
2010	461
Thereafter	167
	$ 6,430

Note 7 — Debt

The Company has an aggregate availability of $20,000,000 in bank lines of credit. One line totaling $12,500,000 bears interest at the bank borrowing rate (6.6% at December 31, 2005) and is subject to loan covenants including a debt to tangible net worth ratio of 1.4 to 1; a minimum working capital requirement of at least $25,000,000; and a debt coverage ratio of 4 to 1. The total amount of credit available under this facility at a given time is based on (a) 80% of the Company's accounts receivable under 91 days outstanding attributable to the Company's Hospitality segment and (b) 40% of the Company's inventory, excluding work in process. The total amount of this facility was available at December 31, 2005. This line expires on April 30, 2006. The second line of $7,500,000 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 (7.25% at December 31, 2005). This facility contains certain loan covenants including a leverage ratio of not greater than 4 to 1 and a fixed charge coverage ratio of not less than 4 to 1. This line expires on October 30, 2006. Both lines are collateralized by certain accounts receivable and inventory. The Company was in compliance with all loan covenants on December 31, 2005. At December 31, 2005 and 2004, there was $3,500,000 and $10,246,000 outstanding under these lines, respectively. The weighted average interest rate paid by the Company during 2005 was 5.6% and 4.2% during 2004. The Company anticipates that it will renew these lines for a three-year period at similar terms.

The Company has a $2,024,000 mortgage collateralized by certain real estate. The annual mortgage payment including interest totals $231,600. The mortgage bears interest at a variable rate based on the lending bank's Corporate Base Lending Rate plus ½%. At December 31, 2005, the interest rate was 7.75%. The remaining balance is due on May 1, 2010. The Company's future principal payments under this mortgage are as follows (in thousands):

2006	$ 76
2007	81
2008	88
2009	95
2010	1,684
	$ 2,024

Note 8 — Stock Based Compensation

The Company's 1995 Stock Option Plan expired in 2005. In 2005, the Board of the Directors of the Company approved the 2005 Equity Investment Plan, subject to shareholder approval at the 2006 Annual Meeting. Under this Plan, the Company has reserved 200,000 shares. Stock options under this Plan may be incentive stock options or nonqualified stock options. The Plan also provides for restricted stock grants. There were no grants under this Plan in 2005. Stock options are nontransferable other than upon death. Option grants generally vest over a three to five year period after the grant and typically expire ten years after the date of the grant.

	No. of Shares (in thousands)	Weighted Average Exercise Price
Outstanding at December 31, 2002	1,947	$ 2.29
Granted	132	3.32
Exercised	(294)	2.31
Forfeited	(206)	2.70
Outstanding at December 31, 2003	1,579	2.33
Granted	381	5.90
Exercised	(260)	2.27
Forfeited	(16)	4.22
Outstanding at December 31, 2004	1,684	3.13
Granted	70	11.40
Exercised	(706)	2.59
Forfeited	(11)	5.75
Outstanding at December 31, 2005	1,037	$ 4.03
Shares remaining available for grant	200	
Total shares vested and exercisable as of December 31, 2005	641	$ 2.71

Stock options outstanding at December 31, 2005 are summarized as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
$ 1.25 - $ 4.00	654	5.0 Years	$ 2.32
$ 4.01 - $ 7.25	313	8.6 Years	$ 5.91
$ 11.40	70	9.3 Years	$ 11.40
$ 1.25 - $ 11.40	1,037	6.4 Years	$ 4.03

Note 9 — Income Taxes

The provision (benefit) for income taxes consists of:

	Year ended December 31, (in thousands)		
	2005	2004	2003
Current income tax:			
Federal	$ 3,312	$ 312	$ 177
State	679	164	112
Foreign	154	239	288
	4,145	715	577
Deferred income tax:			
Federal	1,196	2,259	605
State	17	225	251
Foreign	—	530	(47)
	1,213	3,014	809
Provision for income taxes	$ 5,358	$ 3,729	$ 1,386

Deferred tax liabilities (assets) are comprised of the following at:

	December 31, (in thousands)	
	2005	2004
Software development expense	$ 521	$ 606
Depreciation	137	331
Gross deferred tax liabilities	658	937
Allowances for bad debts, inventory and warranty	(3,396)	(3,506)
Capitalized inventory costs	(67)	(103)
Employee benefit accruals	(504)	(369)
Federal net operating loss carryforward	(254)	(1,906)
State net operating loss carryforward	(123)	(181)
Tax credit carryforwards	(1,393)	(1,165)
Other	(410)	(147)
Gross deferred tax assets	(6,147)	(7,377)
Net deferred tax asset	$ (5,489)	$ (6,440)

The Company has a Federal net operating loss carryforward of $747,000, which expires in various tax years from 2021 to 2024. The Company has Federal tax credit carryforwards of $1,250,000, of which $334,000 has no expiration and the balance expires in various tax years from 2008 to 2025. The Company also has state tax credit carryforwards of $143,000 and state net operating loss carryforwards of $3,500,000 which expire in various tax years through 2024. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the historical level of taxable income and projections for future taxable income, management believes it is more likely than not the Company will realize the benefit of the deferred tax assets. Accordingly, no deferred tax valuation allowance was recorded at December 31, 2005 and 2004.

The provision for income taxes differed from the provision computed by applying the Federal statutory rate to income before taxes due to the following:

	Year ended December 31,		
	2005	2004	2003
Federal statutory tax rate	34.0%	34.0%	34.0%
State taxes	3.1	3.6	8.5
Extraterritorial income exclusion	(1.4)	(1.0)	(2.0)
Valuation allowance	—	—	(8.6)
Non deductible expenses	.5	.5	3.2
Tax credits	(.6)	(.4)	(1.3)
Foreign income taxes	.5	2.7	2.1
Other	.1	.4	.4
	36.2%	39.8%	36.3%

Note 10 — Employee Benefit Plans

The Company has a deferred profit-sharing retirement plan that covers substantially all employees. The Company's annual contribution to the plan is discretionary. The Company contributed $1,985,000, $1,130,000 and $819,000 to the Plan in 2005, 2004 and 2003, respectively. The plan also contains a 401(k) provision that allows employees to contribute a percentage of their salary up to the statutory limitation. These contributions are matched at the rate of 10% by the Company. The Company's matching contributions under the 401(k) component were $297,000, $228,000 and $205,000 in 2005, 2004, and 2003, respectively.

The Company also maintains an incentive-compensation plan. Participants in the plan are key employees as determined by the Board of Directors and executive management. Compensation under the plan is based on the achievement of predetermined financial performance goals of the Company and its subsidiaries. Awards under the plan are payable in cash. Awards under the plan totaled $1,258,000, $682,000 and $559,000 in 2005, 2004 and 2003, respectively.

The Company also sponsors an unfunded Deferred Compensation Plan for a select group of highly compensated employees that includes the Executive Officers. The Deferred Compensation Plan was adopted effective March 4, 2004. Participants may make elective deferrals of their salary to the plan in excess of tax code limitations that apply to the Company's qualified plan. The Company also has the sole discretion to make employer contributions to the plan on the behalf of the participants, though it did not make any employer contributions in 2005 and 2004.

Note 11 — Contingencies

The Company is subject to legal proceedings, which arise in the ordinary course of business. Additionally, U.S. Government contract costs are subject to periodic audit and adjustment. 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.

Note 12 — Segment and Related Information

The Company's reportable segments are strategic business units that have separate management teams and infrastructures that offer different products and services.

The Company has two reportable segments, Hospitality and Government. The Hospitality segment offers integrated solutions to the hospitality industry. These offerings include industry leading hardware and software applications utilized at the point-of-sale, back of store and corporate office. This segment also offers customer support including field service, installation, twenty-four hour telephone support and depot repair. The Government segment develops advanced technology prototype systems primarily for the U.S. Department of Defense and other U.S. Governmental agencies. It provides services for operating and maintaining certain U.S. Government-owned communication and test sites, and for planning, executing and evaluating experiments involving new or advanced radar systems. It is also involved in developing technology to track mobile chassis. As discussed in Note 3, the Company discontinued its Industrial segment in the third quarter of 2002. Accordingly, the results of this segment have been reported as discontinued operations. Intersegment sales and transfers are not significant.

Information as to the Company's segments is set forth below:

	Year ended December 31, (in thousands)		
	2005	2004	2003
Revenues:			
Hospitality	$ 149,457	$ 124,969	$ 98,088
Government	56,182	49,915	41,682
Total	$ 205,639	$ 174,884	$ 139,770
Operating income (loss):			
Hospitality	$ 10,864	$ 5,657	$ 2,977
Government	3,470	2,868	1,928
Other	—	—	(562)
	14,334	8,525	4,343
Other income, net	743	1,134	582
Interest expense	(287)	(295)	(540)
Income from continuing operations before provision for income taxes	$ 14,790	$ 9,364	$ 4,385
Identifiable assets:			
Hospitality	$ 106,529	$ 91,432	$ 70,550
Government	9,015	9,909	10,475
Other	9,605	10,411	6,122
Total	$ 125,149	$ 111,752	$ 87,147
Goodwill:			
Hospitality	$ 20,086	$ 15,379	$ 598
Government	536	—	—
Total	$ 20,622	$ 15,379	$ 598
Depreciation and amortization:			
Hospitality	$ 3,321	$ 2,276	$ 2,212
Government	80	208	201
Other	354	328	402
Total	$ 3,755	$ 2,812	$ 2,815
Capital expenditures:			
Hospitality	$ 1,385	$ 1,348	$ 236
Government	74	—	50
Other	223	250	129
Total	$ 1,682	$ 1,598	$ 415

The following table presents revenues by country based on the location of the use of the product or services.

	2005	2004	2003
United States	$ 183,383	$ 158,407	$ 124,556
Other Countries	22,256	16,477	15,214
Total	$ 205,639	$ 174,884	$ 139,770

The following table presents assets by country based on the location of the asset.

	2005	2004	2003
United States	$ 119,627	$ 105,073	$ 79,811
Other Countries	5,522	6,679	7,336
Total	$ 125,149	$ 111,752	$ 87,147

Customers comprising 10% or more of the Company's total revenues are summarized as follows:

	2005	2004	2003
Hospitality segment:			
McDonald's Corporation	28%	32%	25%
Yum! Brands, Inc.	13%	19%	25%
Government segment:			
U.S. Department of Defense	27%	29%	30%
All Others	32%	20%	20%
	100%	100%	100%

Note 13 — Fair Value of Financial Instruments

Estimated fair values of financial instruments classified as current assets or liabilities approximate carrying values due to the short-term nature of the instruments. Such current assets and liabilities include cash and cash equivalents, accounts receivable, borrowings under lines of credit, current portion of long-term debt and accounts payable. The estimated fair values of the Company's long-term debt at December 31, 2005 and 2004 is based on variable interest rates at December 31, 2005 and 2004, respectively, for new issues with similar remaining maturities and approximates respective carrying values at December 31, 2005 and 2004.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Note 14 — Related Party Transactions

The Company leases its corporate wellness facility to related parties at a current rate of $9,775 per month. The Company receives membership to this facility for all employees. During 2005, 2004, and 2003 the Company received rental income amounting to $117,300. All lease payments are current at December 31, 2005.

The Company also leases office space from an officer of one of its subsidiaries. The lease is for a period of five years beginning on October 1, 2004 at an annual rate of $360,000. In 2005 and 2004, the Company paid $360,000 and $90,000, respectively, to the officer under this lease.

At December 31, 2004 the Company had outstanding an interest-bearing loan totaling $250,000 to an Executive Officer. This loan was originated prior to June 2002. The interest rate is variable and was 4.67% at December 31, 2004. During 2005, this loan was paid in full. During 2005, 2004 and 2003 interest income recorded by the Company related to this loan was $4,300, $12,700 and $20,300, respectively.

Note 15 — Selected Quarterly Financial Data (Unaudited)

	Quarter ended (in thousands except per share amounts)			
2005	March 31	June 30	September 30	December 31
Net revenues	$ 48,757	$ 51,220	$ 52,197	$ 53,465
Gross margin	11,869	13,460	14,157	16,100
Net income	1,306	2,351	2,543	3,232
Basic earnings per share	.10	.17	.18	.23
Diluted earnings per share	.09	.16	.17	.22

	Quarter ended (in thousands except per share amounts)			
2004	March 31	June 30	September 30	December 31
Net revenues	$ 37,898	$ 42,925	$ 42,635	$ 51,426
Gross margin	7,386	8,528	8,807	12,425
Net income	736	1,312	1,734	1,853
Basic earnings per share	.06	.10	.13	.14
Diluted earnings per share	.05	.10	.13	.13

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PAR TECHNOLOGY CORPORATION

March 15, 2006

John W. Sammon, Jr.

John W. Sammon, Jr.
Chairman of Board and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
John W. Sammon, Jr. John W. Sammon, Jr.	Chairman of Board and President (Principal Executive Officer) and Director	March 15, 2006
Charles A. Constantino Charles A. Constantino	Executive Vice President and Director	March 15, 2006
Sangwoo Ahn Sangwoo Ahn	Director	March 15, 2006
J. Whitney Haney J. Whitney Haney	Director	March 15, 2006
James A. Simms James A. Simms	Director	March 15, 2006
Kevin R. Jost Kevin R. Jost	Director	March 15, 2006
Ronald J. Casciano Ronald J. Casciano	Vice President, Chief Financial Officer and Treasurer	March 15, 2006

LIST OF EXHIBITS

Exhibit No.	Description of Instrument	
3.1	Certificate of Incorporation, as amended	Filed as Exhibit 3.1 to Registration Statement on Form S-2 (Registration No. 333-04077) of PAR Technology Corporation incorporated herein by reference.
3.2	Certificate of Amendment to the Certificate of Incorporation	Filed as Exhibit 3.1 to Registration Statement on Form S-2 (Registration No. 333-04077) of PAR Technology Corporation incorporated herein by reference.
3.3	By-laws, as amended.	Filed as Exhibit 3.1 to Registration Statement on Form S-2 (Registration No. 333-04077) of PAR Technology Corporation incorporated herein by reference.
4	Specimen Certificate representing the Common Stock.	Filed as Exhibit 3.1 to Registration Statement on Form S-2 (Registration No. 333-04077) of PAR Technology Corporation incorporated herein by reference.
10.1	Letter of Agreement with Sandman – SCI Corporation	Filed as Exhibit 10.1 to Form S-3/A (Registration No. 333-102197) of PAR Technology Corporation incorporated herein by reference.
10.2	NBT, N.A. Line of Credit Agreement	
10.3	JPMorgan Chase Agreement	
22	Subsidiaries of the registrant	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Certification of Chairman of the Board and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certification of Vice President, Chief Financial Officer and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32.1	Certification of Chairman of the Board and Chief Executive Officer and Vice President, Chief Financial Officer and Treasurer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	

Exhibit 22

Subsidiaries of PAR Technology Corporation

Name	State of Incorporation
ParTech, Inc.	New York
PAR Springer-Miller Systems, Inc.	Delaware
PAR Government Systems Corporation	New York
Rome Research Corporation	New York
PAR Vision Systems Corporation	New York
Ausable Solutions, Inc.	Delaware
PixelPoint ULC	Canada

Exhibit 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
PAR Technology Corporation:

We consent to the incorporation by reference in the registration statements (No. 33-119828, 33-04968, 33-39784, 33-58110, and 33-63095) on Form S-8 and the registration statement (No. 333-102197) on Form S-3 of PAR Technology Corporation of our reports dated March 10, 2006, with respect to the consolidated balance sheets of PAR Technology Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of PAR Technology Corporation.

Our report dated March 10, 2006 on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2005, contains an explanatory paragraph that states PAR Technology Corporation acquired PixelPoint Technologies, Inc. on October 4, 2005, and management excluded from its assessment of the effectiveness of PAR Technology Corporation's internal control over financial reporting as of December 31, 2005, PixelPoint Technologies, Inc.'s internal control over financial reporting associated with total assets, net revenues, and income from continuing operations before provision for income taxes comprising 6.1%, 0.4%, and 1.7% of the consolidated total assets, net revenues, and income from continuing operations before provision for income taxes of PAR Technology Corporation and subsidiaries as of and for the year ended December 31, 2005. Our audit of internal control over financial reporting of PAR Technology Corporation also excluded an evaluation of the internal control over financial reporting of PixelPoint Technologies, Inc.

KPMG LLP

Syracuse, New York
March 15, 2006

Exhibit 31.1

PAR TECHNOLOGY CORPORATION
STATEMENT OF EXECUTIVE OFFICER

I, John W. Sammon, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of PAR Technology Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) and that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

John W. Sammon, Jr.

John W. Sammon, Jr.
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

PAR TECHNOLOGY CORPORATION
STATEMENT OF EXECUTIVE OFFICER

I, Ronald J. Casciano, certify that:

1. I have reviewed this annual report on Form 10-K of PAR Technology Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) and that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

Ronald J. Casciano

Ronald J. Casciano
Vice President, Chief Financial Officer & Treasurer

Exhibit 32.1

PAR TECHNOLOGY CORPORATION
CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of PAR Technology Corporation (the Company) on Form 10-K for the year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), we, John W. Sammon, Jr. and Ronald J. Casciano, Chairman of the Board & Chief Executive Officer and Vice President, Chief Financial Officer & Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

(1) The Report fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

John W. Sammon, Jr.

John W. Sammon, Jr.
Chairman of the Board & Chief Executive Officer
March 15, 2006

Ronald J. Casciano

Ronald J. Casciano
Vice President, Chief Financial Officer & Treasurer
March 15, 2006

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