Acorn Energy, Inc., Q4 2024 Earnings Call, Mar 06, 2025
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Operator

Good morning, and welcome to Acorn Energy's Fourth Quarter and Year-end 2024 Conference Call. [Operator Instructions] After some prepared remarks, we will conduct a question-and-answer session. And as a reminder, today's conference is being recorded. Now I will turn the conference to Tracy Clifford, CFO of Acorn Energy and COO of its OmniMetrix operating subsidiary. Ms. Clifford, please begin.

Tracy Clifford

Thank you, operator, and thank you all for joining today's call. Let me first remind everyone that the following remarks as well as answers to questions may be forward-looking. These statements are subject to various risks and uncertainties. The operating and financial performance of the company in future periods is subject to risks associated with potential disruptions to business operations and customer demand, risks related to the company executing its operating plan, maintaining high customer renewal rates and growing its customer base as well as from changes in technology, the competitive landscape or in the financial or economic environment.

Forward-looking statements are based on management's beliefs and assumptions using currently available information and data pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There is no assurance that the company will achieve its goals.

The company undertakes no obligation to revise or disclose revisions to forward-looking statements made as of today to reflect future events or circumstances that occur after today's call. A full discussion of risks and uncertainties that may affect the company if included under risk factors in our 10-K filed this morning and available on sec.gov and on our website.

Now I'll turn the call over to Jan Loeb, CEO of Acorn and OmniMetrix. Jan?

Jan Loeb

Thanks, Tracy, and thank you all for joining us today. I am incredibly proud of the progress the Acorn and OmniMetrix teams achieved in 2024. We were able to grow our revenue by 36% and net income increased to $6.3 million or $2.51 per fully diluted share from just $119,000 or $0.05 per fully diluted share in 2023. Our 2024 results include $4.35 million or $1.77 per fully diluted share of deferred income tax benefit.

This tax benefit was the result of our outlook for sustained profitability and reflects only approximately 28% of our total deferred tax assets. Following the valuation allowance release, Acorn still has approximately a $11 million or 72% of our deferred tax assets remaining in reserves. As you may know, our operating results in the second half of 2024 were bolstered by initial revenues from an approximately $5 million contract with a leading cellphone provider.

The contract is for remote monitoring equipment and the initial year of monitoring services to support thousands of the customers' backup generators deployed at cell tower sites across the United States. The rollout has been progressing well. The customer recently increased the number of hardware units that they plan to order by 40%. We currently expect to fulfill shipments of hardware under the contract during the next few quarters of 2025. We remain focused on executing this project with the highest level of customer retention and premium service delivery knowing that ensuring success with this customer could position us for additional opportunities with this customer and others of a similar profile with substantial remote monitoring needs.

Of course, we expect to benefit from ongoing monitoring service revenue from this customer as a result of the annual renewals on the respective anniversary dates after the first year of monitoring services. Importantly, our strong 2024 performance enabled us to substantially improve our balance sheet, positioning us to pursue an uplifting to the NASDAQ capital markets in 2025. Our cash increased to $2.3 million in 2024 from $1.5 million in 2023 and stockholders' equity improved to $5.5 million in 2024 from a deficit position in 2023 of $838,000.

Reflecting our improved operating results and the impact of the release of a portion of our available valuation allowance. NASDAQ's $5 million in shareholder equity listing criteria has been the principal obstacle to our pursuing an uplifting. We are excited to pursue this next step in expanding the visibility and liquidity of our common stock to reach an even broader base of institutional and retail investors.

Looking forward, we see a range of factors that should increase commercial and consumer demand for backup generators and our industry-leading monitoring and control services. We outlined some of these demand drivers in today's press release, and I'd like to touch on a few in more detail. First and foremost is the increasing frequency of severe weather and natural disaster events such as storms, floods and wildfires that can disrupt electricity access for extended periods.

The increasing incidence of higher disruption raises the urgency for commercial and individual users to invest in reliable backup power. Adding to these woes is our nation's aging electric grid infrastructure, which is being increasingly challenged by growth in current and forecasted electricity demand to support a variety of energy-intensive use cases as well as mission-critical applications in health care, food, storage, security, et cetera.

Our solutions provide substantial efficiency, value and expanded capabilities that support backup generators with remote control functions, actionable data, risk mitigation tools, regulatory compliance and general peace of mind benefits. We have also positioned Acorn to play a timing role in enabling the use of standby generators to support electric grids in meeting peak power in what is called demand response.

We are still in the early days of building out a broader base of demand response support from standby generators. It takes time to formalize the relationships and to build our customer awareness and engagement, but we believe the demand response has the potential to become an important long-term profit driver for our business.

We have received our first 2 payments from ERCOT, though they are relatively small. While these factors support our business outlook, we also continue to invest in research, engineering and product development to maintain our market leadership as well as to develop new solutions. Tracy will provide some more detail on these efforts in a moment.

While we believe our solutions can really sell themselves, we are actively pursuing new revenue opportunities by supporting our network of approximately 600 generated dealers across the U.S. and Canada. In addition, our internal sales team is focused on identifying and pursuing a large commercial and industrial customer opportunities that are similar profile to our large cellular customer as well as government opportunities like state colleges and universities.

Of course, the sales cycle is much longer for these large enterprise opportunities, which involve more formal and tiered procurement processes. We also continue to work at forging strategic relationships with power generator manufacturers and other industrial equipment providers to expand our market reach. Moreover, our growth strategy includes an ongoing M&A process to seek out complementary and accretive opportunities that are well-aligned with our business operations and objectives.

In summary, as we have said in prior quarters, we believe that Acorn continues to be exceptionally well positioned for long-term growth and increasing profitability. Our solutions provide high ROI benefits that help customers achieve their operational, financial, environmental and risk mitigation goals. We have a promising outlook for this year and a higher work developing growth opportunities for the years to come. Let me now turn the call to Tracy Clifford, our CFO and COO, for her financial review and operational insights. Tracy?

Tracy Clifford

Thanks, Jan. In addition to our earnings release, we also filed our 10-K this morning, which are both available online. Now I'll provide a brief review of our Q4 and full year 2024 financial performance and operating highlights before we open the call for questions. .

On the top line, Q4 '24 revenue rose 57% to $3,529,000 driven by a 100% increase in hardware sales and a 10% rise in monitoring revenue.

Our contract with the significant cell phone provider contributed $913,000 in TrueGuard hardware revenue in Q4 '24. Excluding this contract, hardware revenue still grew 22% year-over-year in Q4. Full year 2024 revenue increased 36% to $10,986,000 supported by a 69% increase in hardware sales and a 7% rise in monitoring revenue. Excluding the impact of the material contract, hardware revenue grew 26%, driven by sales of enhanced product versions introduced in September of 2023.

The enhanced hardware feature functionality that allows the equipment to operate independently of our monitoring services. As a result of this functionality, hardware revenue and costs are recognized upon shipment rather than being booked to deferred revenue and subsequently amortized. For the hardware shift into the material contract, the revenue is recognized when the units are accepted by the customer according to their terms. Monitoring revenue is booked to deferred revenue until the units are installed and then recognized ratably over the service period, which is typically 12 months.

Gross profit grew 55% in Q4 '24, while gross margin declined slightly to 72.4% from 73.2% in Q4 '23, reflecting an increase in hardware revenue, which carries a lower gross margin in monitoring. Similarly, full year gross profit increased 33% to $7,999,000 while growth in hardware reduced our blended gross margin to 72.8% in 2024 from 74.5% in 2023. Gross margin on hardware was 57% in '24 versus 54% in '23 and gross margin on monitoring was 94% in '24 versus 93% in '23.

Going forward, we anticipate our blended gross margin to fluctuate depending on our mix of hardware and monitoring revenue. Total operating expenses rose to $1.711,000 in Q4 '24 from $1,570,000 in Q4 '23. However, as a percentage of revenue, operating expenses declined to 48% from 70%. For the full year, operating expenses were held to a 2% increase to $6,062,000. SG&A remained flat as the consolidation and elimination of the VP position and our sales organization offset higher wages and commissions across our employee base and increased IT spend.

We have plans to add another high-level rule in our IT department to provide additional internal resources to continue to expand our data tools available to our customers, respond to custom requests, innovative ideas at a rapid pace and continue our focus on cyber security, all of which we will leverage to enable us to outpace our competitors in the IoT space.

R&D expenses increased 20% in Q4 '24 and 16% for the year, reflecting higher engineering personnel and consulting costs associated with developing next-generation monitoring products. Our continued investments in redesigning and expanding our product line are aimed at driving innovation, strengthening our competitive position and exploring new market opportunities.

While on the topic of R&D, our focus remains on expanding our product offerings and enhancing our existing monitoring solutions, particularly in the Power Generation segment, which now accounts for 90% of our business and is our primary growth driver. We are very excited about the work that our engineering team has been doing for the last 1.5 years, which has culminated in our plans to launch our next-generation line of products in the second quarter of 2025. We'll talk more about this in our next quarter conference call in May.

During 2024, we introduced significant enhancements to our user interface with the launch of OmniView 2, which we call OV2. This update features a modernized more user-friendly design and new functionalities, including the air quality index or AQI data to help customers comply with their quality regulations. Another area of focus for development is on high-performance data collection and automated prognostic solutions. Most generator failure stem from consumables such as batteries or fuel, which exhibit predictable usage patterns.

By closely monitoring these data trends, we can proactively identify potential failures and empower our customers to take preventative actions to ensure backup power is available when needed. Acorn's strong 2024 results and outlook for ongoing profitability required to release of a valuation allowance against our deferred tax assets, resulting in a $4,355,000 deferred income tax benefit in Q4 '24. Reflecting our strong operating performance and the income tax benefit, Q4 '24 net income improved to $5.233,000 or $2.08 per diluted share compared to $84,000 or $0.03 per diluted share in Q4 '23.

The deferred income tax benefit contributed $1.77 to guided EPS. For the full year, net income rose to $6.294,000 or $2.51 per diluted share, including the $1.77 impact from the income tax benefit compared to $119,000 or $0.05 per diluted share in 2023. From a cash flow perspective, Acorn generated $905,000 from operating activities, invested $56,000 in technology and equipment and received $28,000 from stock option exercise resulting in a net cash increase of $877,000.

Our cash position improved to $2,326,000 as of year 2024, up from $1.449,000 a year earlier, and our accounts receivable increased to $1.9 million from $540,000 as of year-end. As of March 4, our cash position improved to $2.8 million with no debt outstanding. We are proud of our growth and operating discipline and believe that our strong team, sound financial position and ongoing investments will enable us to build on our industry leadership, particularly given the favorable trends we see in substantial underpenetrated markets. That concludes my comments. I appreciate your attention, and I look forward to updating you on our Q1 call in May. With that, operator, please prepare for our Q&A session.

Operator

[Operator Instructions] The first question today comes from Kris Tuttle with Blue Caterpillar.

Kris Tuttle

And again, great performance this quarter. Just I wanted to clarify a few things on the large contract that you're executing against. The range of -- when you announced it, you said 5,000 to 10,000 units, I think, and that's a pretty broad range. And then on the call today you said thousands. I'm just curious like -- how is that number -- how is that final number going to be determined? And what percentage of that is like the opportunity of that particular customer.

Jan Loeb

Chris, thank you for your question. I mean, it depends on what the customer sends us a PO for, is what our number is going to be -- the -- we don't know for sure what the customer's total number is. Because the customer has -- besides the cell tower sites that they own themselves, they are in co-location as well. And it really depends on who's in charge of the generator at that location.

So right now, we're just going on this company's own cell towers and putting the monitors on their generators at that cell tower. We've said it's between 5,000 and 10,000. I think that's still the range even though we said in our -- just in our prepared remarks that they've added from the initial contract, about 40% more units. But I think that the opportunity is potentially double of what we have today is my guess.

But again, they have not said that. And it depends on a lot of factors, where they want to go. But it's clear that they and many other companies that own generators have focused in on the need to monitor their generators, especially remote locations like cell towers, where it takes a lot of technician time to make sure they're working.

Kris Tuttle

Okay. Got it. That's helpful. Another question, again, related to the -- in the press release, there's something -- there's a line that says the pace of hardware shipments to accelerate in the next few quarters to hopefully complete the statement of work by end of this year. What do you mean by the pace of hardware to accelerate in the next few quarters, because it's already pretty high?

Jan Loeb

When we initially announced this contract and when it was signed with this company, it was over a 2-year period. The company has said to us that they would like to move quicker and have it done within at least a year, I might go a little bit beyond that. And obviously, it depends on how many they really want to order from us, but because they would like to have it quicker, we're going to endeavor to provide to them quicker. So that's why we think that over the next few quarters, the pace will accelerate.

Kris Tuttle

Is there -- do you have any insight into what the driver for that would be? I don't think I've ever heard of a Telco wanting to do anything faster than they originally thought they were going to do.

Jan Loeb

I can't get inside their minds, but if you just think about it today, I mean, if your cell phone went out in your area for more than an hour, I think you would be very upset. Am I correct? .

Kris Tuttle

Well, I try to look on the bright side of things, but yes, I take your point.

Jan Loeb

Okay. So they have to make sure that their cell towers are working, there's power to their cell towers. Just because there's some storm going on and the grid can't provide the power to the cell tower, they have to know that the monitor is going to be up and running. I mean that the generator is going to be up and running and we provide them with that information.

And if you think about it, it's a relatively small cost to make sure that it's running.

Kris Tuttle

Yes. It makes sense. It's just -- it's -- like I said, it's just a little unusual to that particular type of customer. They're so much famous for being slow. But if they are having outages and they are trying to keep their service up and running, then it makes sense to prioritize it, it's not. I was just curious if you had something additional on that. And then the last question for me, at least, and I'll circle back in case other people want to ask questions, too.

In terms of your inventory level and your supply chain, given the demand for hardware this year, do you feel -- are your inventory levels adequate? Do you have supply chain efficiency and the cycle times to replenish to meet this and other customer demand.

Jan Loeb

We believe so. Again, this is not like it just happened overnight. We had this contract back in June of 2024. We have weekly calls with the customer. So we understand their needs and desires. And so as of right now, I don't see any problem. I don't know what's going to happen in 6 months. But as of right now, we're in fine shape.

Kris Tuttle

Okay. One -- actually I did have one other question of general interest, I think, which is -- so we've had this huge acceleration in the growth rate of the hardware and that we're beginning to see a little bit of acceleration in the monitoring revenue line. Should we expect to see further acceleration of the monitoring business given the hardware installations or is there something going on there with respect to the attach rate of monitoring relative to the hardware you're installing?

Jan Loeb

No, you should see some increase in -- a continued increase in monitoring -- just remember that the hardware is 5 to 6x the cost of annual monitoring. So you're not going to -- you're always going to see a much bigger number on the hardware side than you're going to see on the monitoring side.

Operator

[Operator Instructions] The next question comes from Richard Sosa a Private Investor.

Richard Sosa

Tracy. Great quarter, great year. Super excited as long-term shareholders to see the continued growth. I'm not totally surprised, but very happy to see that maybe execution and the value proposition you're offering your customers continues to be met. So first and foremost.

I had really 3 questions. One, I was very surprised to see the NASDAQ uplisting. We've been waiting for that for a while. And it does seem [like] the perfect time, you have the momentum, you're growing, the cost of the uplift, I think, will be well justified. Just -- I mean, I know you didn't talk about it much in your release, but in the sense of timing, do you think this can be done by the end of June? Or is it really still up in the air because there's multiple parties in our stake.

Jan Loeb

Well, first, Richard, thank you for your comments and your continued support. Again, I'm not a NASDAQ specialist. So I can't tell you what hoops they're going to make us jump through, but it's certainly my and our intention that it gets done by June 30. But we'll see -- we'll see what the experts have to say.

Richard Sosa

Great. And I'm assuming you'll keep the shareholder updating on timing as we approach that time. I know we have a call on in few month.

Jan Loeb

Yes, exactly. I mean -- and you know we're a fairly accessible management team. So one can expect to be kept updated.

Richard Sosa

And then on just -- I don't know that I ever asked before, but as you uplift, have you thought about changing the name of the corporation just to kind of maybe align more with OmniMetrix? Or is that something that's not really in the cards?

Jan Loeb

No. We've definitely thought about it. And we continue to think about it. So far, I haven't -- I have not gotten a good cost benefit by doing that. So I mean, again, most of our customers know us as OmniMetrix. It's just kind of the shareholders that knows us as Acorn Energy. So we'll see what happens. And certainly, an uplisting or an acquisition who would be a catalyst to have that name changed?

Richard Sosa

Okay. And then my last question, and probably at the beginning of the call, I was kind of doing multiple things. Just you mentioned about the contract, the Telco contract, something about 40% increase in hardware. I was unsure what that meant exactly. Was it 40% in addition to what was in the initial $5 million order? Or am I totally misunderstanding.

Jan Loeb

Tracy, why don't Tracy handle that question.

Tracy Clifford

Yes. So Richard, the 40% was meant to indicate the percentage of units that we actually received an indication from the customer on over and above what we had on purchase orders as of the end of the year. So that...

Richard Sosa

That is nothing to do with the $5 million. Nothing to do with that. That makes sense.

Tracy Clifford

Correct.

Richard Sosa

I did notice in the 10-K that the order is already larger than $5 million? Or does that include like monitoring? I thought it was $5.4 million or something. Again, I could -- I might have skimmed it. But I'm assuming it has grown a little bit, right?

Tracy Clifford

The $5.4 million is indeed inclusive of the monitoring. Everything that we have to date, yes, the indications as of to date. Now as Jan alluded, it's very possible that they will come back to us and add more. We have an open SOW essentially. So they're able to send POs continuously. And that's why he indicated there was a bit of uncertainty as to what the full opportunity might be because we already have received additional indications of the 40% increase in the units from the original POs placed in 2024. So we're hopeful that there'll be even more.

Richard Sosa

That makes sense. And I know the last call, you mentioned about accelerating the hardware. But -- and this is just my opinion, I feel that the customer wants the product faster. either one, they're testing, you'll see if we can deliver, but two, they're happy with it or else they wouldn't want it right away. So I view that as a positive. I mean, correct me if I'm wrong. I'm positive and I'm assuming that there could be a lot more potential there and with competitors.

So I'm very excited. And lastly, just ex this order, it still seems like you really, really grew and we're able to make all your other customers happy, and it seems like -- I mean there's -- I'm trying to find a negative and I mean, I can't find it one. So again, kudos and that wasn't really a question. So I will go back to the queue and thank you very much.

Operator

[Operator Instructions] The next question comes from Greg Weaver with Invicta Capital.

Greg Weaver

Nice job here on the quarter. Again, I'll loop back. This is one of the questions on this purchase order increase, still a little unclear. So you said the size of the original PO was not $5 million, and this 40% increase is under that umbrella.

Jan Loeb

No. The original was $5 million. $5 million includes both hardware and first year monitoring. That's how we sell all our products, hardware plus first year monitoring. And as Tracy said, that the -- they've given us a new order for 40% more units than they ordered originally.

Greg Weaver

Right. And you told us before that the monitoring was about 20% of the total. So the other 80% would be hardware, so just doing the idiot math here. There will be $4 million of hardware and $1 million of monitoring. So if that's the case, there should be 40% times $4 million as the order increased $1.5 million, $2 million.

Jan Loeb

All right. Well, the other factor you have to put in that we have not talked about is they have different products, and we have different products. So there's a stand-alone TG2, then there is a TG Pro, there's mobile, there's mobile with sensors. So there's kind of a full mix of different price points that them or any customer can order from us.

Greg Weaver

Okay. So the 30% to 40% increase you said there was units, right?

Jan Loeb

In units. Correct.

Greg Weaver

Go back to your price point comment. Okay, either way there is incremental on top of the original 5 that you got. So congrats on that. That's positive. And the other thing was just a subtle question. A nice way to achieve your $5 million in equity by flip and part of the NOL. But generally speaking, from a GAAP perspective, that messes up your tax rate, right, put cash taxes. Obviously, you're not paying. So Tracy, maybe could you -- what's the fiscal '25 GAAP tax rate? And are you going to give some type of presentation that shows non-GAAP to be apples-to-apples?

Tracy Clifford

Well, we don't disclose any non-GAAP measures that problematic on the disclosures. So there wouldn't be a reconciliation to non-GAAP. But -- as it relates to the future of the release of the deferred tax assets, it's going to be, as I'm sure you're aware, largely dependent on how our projections from 2025 through 2032 progress with what we have currently projected at year-end to what materializes over the next 4 to 8 quarters.

So all this is very -- since this is the first time we've been able to look forward and be able to substantiate a release of deferred tax assets. We'll certainly be looking very closely at this each quarter on the projections, most specifically post June 30 to see how the remainder of the year after the -- all the shipments are out under the existing material contract and what other opportunities we have for the remainder of '25 and looking into '26 because that will largely drive any other release of the DTAs or any other adjustments that might need to be made to releases that have already been made. So we're very focused on that.

Greg Weaver

Right. I totally understand that concept. But the issue is when you report earnings now, right, you're going to have some type of tax rate where historically, I guess you're only paying state taxes and no federal. So it will just make the EPS look smaller even though from a cash perspective, that's not the case.

Jan Loeb

That's correct.

Greg Weaver

So the -- I'm just asking, in the text body or something, is say this is our cash EPS? Or some indicators so that folks won't get upset, saying what happened to the earnings.

Tracy Clifford

Well, I could imagine that it will be obvious just as we carved it out in the earnings release for the year-end and the fourth quarter. We will try to make sure that it is clear what portion is related to the DTA of EPS and what portion is related to ongoing operation activities, we will carve that out.

Greg Weaver

Okay. I'm assuming you're not taking any gains a year generally a year-end thing when you reassess the deferred tax, but okay either way.

Tracy Clifford

No unfortunately, we'll have to reassess it every quarter. But the difficult part of doing that, of course, is because of the nature of our business, there can be very significant swings based on shipments and when the orders come in between quarter-to-quarter. So we will be very careful not to react in a major fashion on a quarterly result as we move through the year, especially if it's just based on timing.

If that's what we're seeing, and it's just really based on timing. So we will be very careful about. It's not just a year-end. The guidance doesn't allow you only to look at it at year-end, but certainly, we will consider fluctuations in the quarters and how they might ultimately impact the year-end numbers and whether or not we need to make an adjustment at the quarterly period or if we believe there's enough substantiation and the projections to actual to wait until the end of the year.

Greg Weaver

Got you. Okay. So it could even be a negative tax rate as opposed to a...

Tracy Clifford

It could be. It could be. I mean, certainly, we hope that's not the case, but it's always possible.

Greg Weaver

Understood. Either way. It will distort the EPS, but that's not your cash situation.

Operator

Next question comes from Joel Sklar, who is a private investor.

Joel Sklar

I'll just echo the remarks that others have made outstanding quarter and year. I'm very excited about the potential uplifting to NASDAQ. Just one question for you, Jan. Can you provide a little bit more color on demand response and what's going on there? And in terms of when we may start seeing significant revenue streams from demand response.

Jan Loeb

I wish I could tell you the answer. I don't know. As we are -- this is a brand new -- relatively brand-new program for everybody. And even the grid operators themselves don't know how to manage this, how much they need, how much they can commit to, what's the dollar amount. So I say, and I think I said in my prepared remarks that the demand response is influx.

We know that it's a necessity because we need to have power peak power, and it's not available today. And we are there already. We -- our software is there. Our position is there. And as I said we actually got a couple of checks that are relatively small. And so when everybody understands how this will be priced out we will be there and we think we will be right in the middle, perfectly positioned to take advantage of it. But right now, it's not something that's going to impact our numbers in the foreseeable future as I see it today.

Operator

[Operator Instructions] The next question comes from Shai Dardashti a Private Investor.

Shai Dardashti

I recall in November 2024 the company discussed the possibility for white label opportunities with generator manufacturing companies? Does this opportunity still exist? And could you calibrate any outlook for this opportunity, please?

Jan Loeb

The opportunity still exists [Shai] -- and I cannot calibrate what the opportunity -- what it is in terms of size or anything like that, but any opportunity certainly still exists?

Shai Dardashti

And I'd like to also please follow up on a November 9, 2023 press release that mentioned a retail -- a reseller agreement with a leading commercial dealer. I'm curious if that relationship has progressed? And if it has, what the contribution is? And if not, if the units might eventually happen, please?

Jan Loeb

So the opportunity has not panned out. The agreement was with a private equity firm that was rolling up generator dealers and their thought was that they could do a deal with us and thereby save money for their dealers in terms of buying in bulk, monitoring services, monitors and monitoring services from us. The private equity firm found it more difficult than they thought to get the dealers to buy from us mainly because some dealers were radar customers. Some dealers were customers or competitors of ours and didn't want to change just because the private equity parent had this deal with us and the private equity parent wasn't willing to really put their foot down and say, "You have to do this." And then subsequently, that private equity firm sold the group of dealerships that they were rolling up to a different firm. So simple answer to your question is it didn't -- it has not panned out through no fault of our own.

Operator

The next question comes from Bill Jones.

Bill Jones

This question was e-mailed from a private investor. And the question is, is it correct that cash received for monitoring may still show up as deferred revenue -- for example, when a customer pays for an entire year, whereas cash received for hardware will now rarely or never show up as deferred revenue. Could you share the percentage of revenue -- deferred revenue, current and long term, that is hardware versus monitoring.

Jan Loeb

Tracy, you want to take that.

Tracy Clifford

But the investor could refer to footnote 13 actually in our financial statement that has the table that actually has this breakout and for ease of reference, the total deferred revenue at December 31, 2024, was $4.2 million. Of that $3.1 million was monitoring and $1.1 million is hardware. And additionally, of that $4.2 million in total deferred revenue, $3.5 million of that will be recognized throughout '25, so it's short term. And then -- and then 709 of that will be recognized in '26 with a very small portion in '27.

Now of course, monitoring revenue will continue to be deferred and amortized over the service period. So that deferred revenue will continue to fluctuate whereas the hardware revenue that you see in the table of $1 million of $1.1 million is unlikely to change increase or otherwise after it is fully amortized in 2026. But that table is in footnote 13 of the financial statements.

Bill Jones

Right. So the new sales of hardware are not deferred. .

Tracy Clifford

Correct. .

Bill Jones

Right. Okay. I think that answers the question. And question number two, you shared in recent or prior calls and filings, that about 55% of hardware revenue drops to the gross margin whereas more than 90% of monitoring revenue drops to gross margin. Can you discuss the relative expenses below the gross margin line needed to fulfill onetime hardware revenue versus recurring monitoring revenue.

Said another way, you said before that roughly 50% of incremental revenue is likely to drop to the operating income line. Is this expectation for 50% incremental operating margin the same for hardware revenue and recurring monitoring revenue.

Jan Loeb

Okay. So the -- in answer to the first part of the question, below the gross profit margin line, we have all of our SG&A expenses. And some of that goes to the recurring monitoring revenues as well, renewal building, receiving the checks from our customers. And that also goes for the hardware revenue.

Engineering is mainly for hardware revenue, but we have some IT expense on the recurring monitoring revenue and then we have tech support, again, both for the hardware side and some tech support on the current monitoring side. So those are some of the -- below the gross margin line expenses that we have, obviously, much more so for the hardware than for the recurring monitoring revenue. And what I've said before that I believe that 50% of incremental revenue drops to -- it's the combination of both the higher margin recurring revenue monitoring and the hardware -- the growth in the hardware sales.

So 50% of overall revenues incremental revenues, I believe, can fall to our operating income line, because the infrastructure is there. We have a very efficient team, and I don't expect expenses to grow that much to add an incremental dollar of sales.

Bill Jones

Right. So the 50% is blended.

Jan Loeb

Correct.

Bill Jones

Between hardware and monitoring. I think that makes sense. I have no further questions from e-mail.

Operator

Showing no further questions. This concludes the Q&A session. Now I'll turn the call back to Jan Loeb for closing remarks.

Jan Loeb

We appreciate your support, and we're always happy to speak with investors. We will participate at the Planet MicroCap Las Vegas showcase on April 23 and 24. The conference is in partnership with the MicroCap Club, and we'll put out details about the event in coming days. We'll be meeting with investors at the conference or you can arrange a call with us or ask questions through our IR team, whose information is listed in today's press release, -- as always, we thank you for your support and look forward to updating you on our progress and our plans for uplisting to NASDAQ. Thank you, everybody.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.