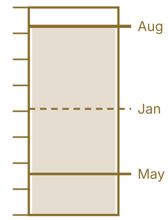
DIGITAL CREDIT · STRATEGY INC · NASDAQ: STRC

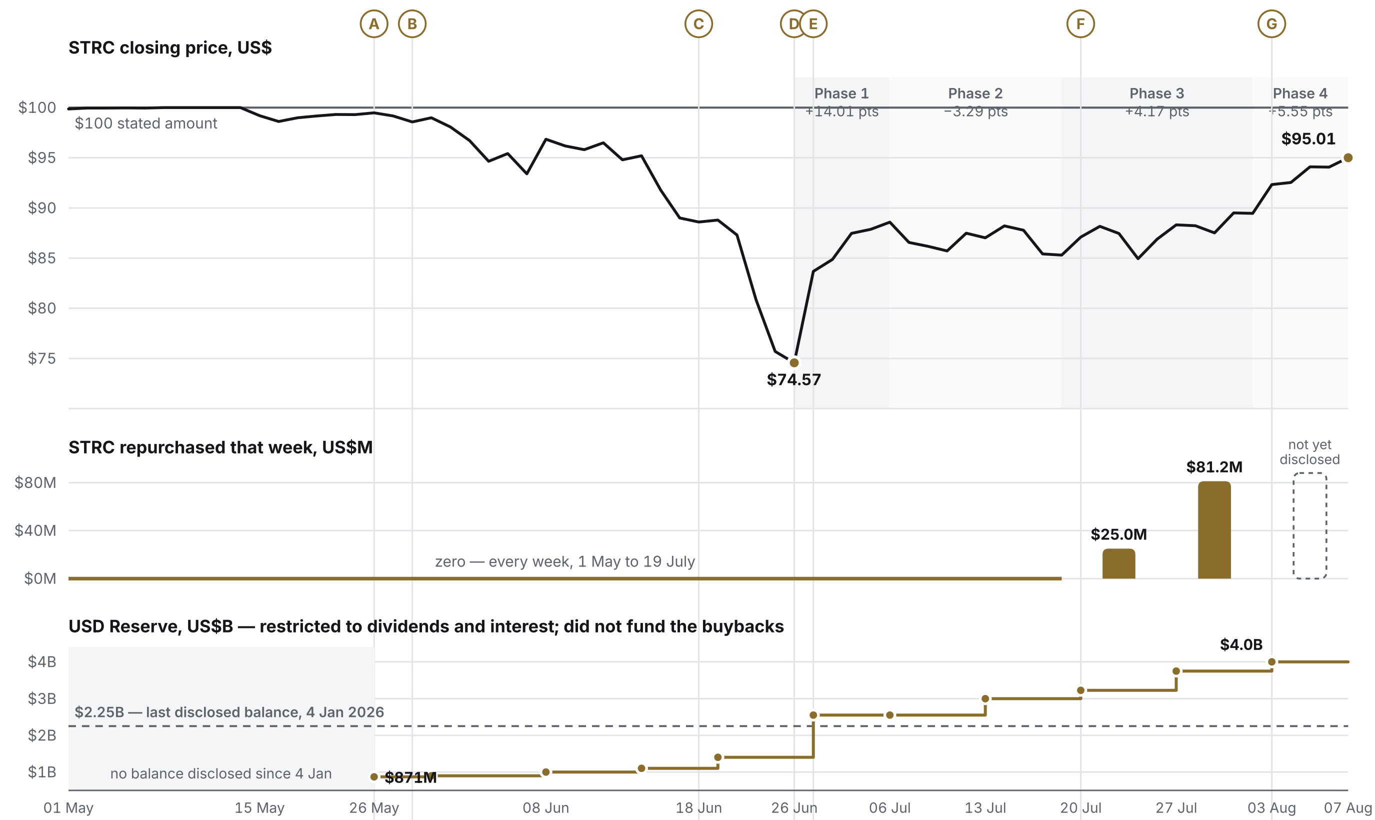
The Drained Reservoir



Strategy's dividend buffer fell 61% in silence, and the $100 peg broke days after the number surfaced. The refill — not the buyback — is what brought STRC back.

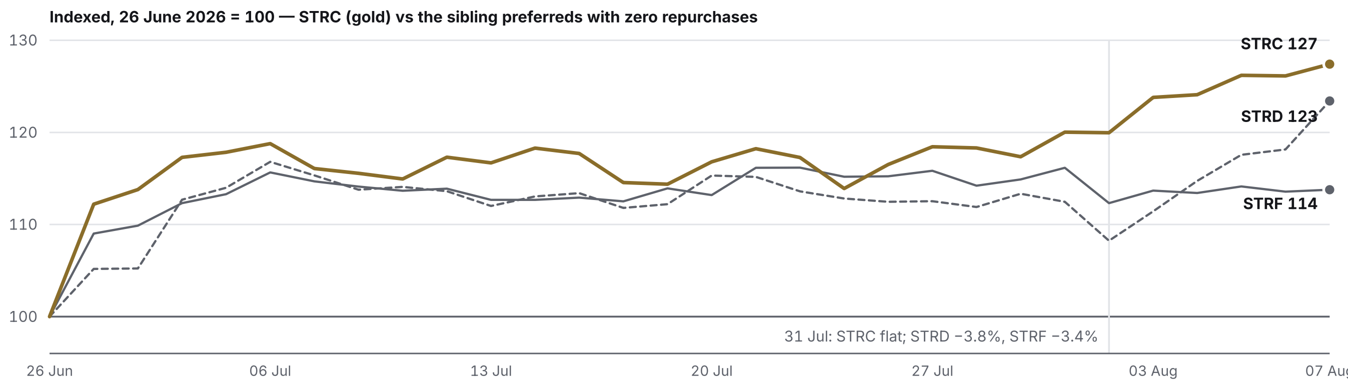
STRC CLOSED $95.01 ON AUGUST 7, 2026 · STATED AMOUNT $100 · LOW $74.57 ON JUNE 26

FIGURE 1 · PRICE, WEEKLY BUYBACKS AND THE USD RESERVE ON ONE TIMELINE



- (A) 26 May — First reserve disclosure since 4 Jan: $871M
- (C) 18 Jun — Record-low close $88.59; STRC ATM issuance suspended
- (E) 29 Jun — Digital Credit Capital Framework; dividend to 12%
- (G) 3 Aug — $81.2M buyback week disclosed; bitcoin sold to fund it
- (B) 28 May — Slide resumes; STRC never closes above $99 again
- (D) 26 Jun — Closing low $74.57
- (F) 20 Jul — First repurchases

FIGURE 2 · THE CONTROL — STRC AGAINST THE SIBLING PREFERREDS THAT RECEIVED NO BUYBACK



Has STRC's return toward par been driven by buybacks and the growing USD reserve?

Mostly no — and the two levers are not what they appear. More than two-thirds of the recovery from $74.57 was in place before the first share was repurchased, and the reserve's policy restricts it to dividends and interest — both buyback weeks were funded from bitcoin sales and MSTR stock sales instead. The repricing event was the June 29 framework, which converted a discretionary cash pool — one that had quietly been drawn down 61% — into a Board-governed buffer with a 12-month floor. The buybacks ($106M against a $10.5B class, 1.15% of shares) are a credible signal, but their measurable price effect rests largely on a single session, July 31, when STRC stood flat against a 3–4% drop in its sibling preferreds.

$871M

THE DIVIDEND BUFFER BEHIND $10.5B OF 12% PAPER — 25 MAY 2026, DOWN 61% FROM JANUARY

A peg is a promise about a buffer

STRC — Strategy's Variable Rate Series A Perpetual Stretch Preferred — is built to trade at its $100 stated amount. The design has three levers: an at-the-market program that issues new shares when the price is above par, a dividend rate management adjusts monthly (11.50% in June, 12.00% since July), and a US-dollar reserve that stands behind the dividend. By June 30 the class had grown to 104.9 million shares — $10.5 billion of notional — making it the largest of Strategy's five listed preferreds and the one carrying the heaviest coupon bill: $282.9 million of the $400.2 million in preferred dividends the company paid in the second quarter alone.

The reserve is the load-bearing lever, and it launched on December 1, 2025 sounding firm: an initial $1.44 billion, with a stated intention to hold at least twelve months of dividend and interest coverage and "the goal of ultimately covering 24 months or more." But the same announcement kept the reserve's terms and amount subject to Strategy's "sole and absolute discretion" — and by the time the balance resurfaced in May, the filings had quietly downgraded the description to "a management-designated portion of Strategy's liquidity." The language softened as the balance shrank.

For a while the design worked exactly as drawn. From late February to mid-May 2026, STRC closed between $99.29 and $100.06 — pinned to par for the better part of three months, with early May spent within a few cents of $100.00.

The drawdown nobody watched

The weekly 8-Ks disclosed the reserve balance twice around the turn of the year — $2.19 billion as of December 21, $2.25 billion as of January 4 — and then went quiet. For twenty weeks, no balance appeared in any filing. When the number resurfaced in a May 26 capital-structure update, it was **$871 million: down 61%**. Against the roughly $1.76 billion Strategy was by then paying annually in preferred dividends and interest, the buffer covered about six months — for a security whose entire premise is that the dividend is safe.

The tape had already wobbled — STRC slipped from $99.19 to $98.61 in mid-May before steadying near $99.50 — but the sustained break dates from the disclosure. STRC closed at $98.57 on May 28, two sessions after the $871 million print, and never closed above $99 again. The slide ran through June with mechanical logic: a preferred stock's par peg is only as strong as the buffer behind it, and the buffer was going the wrong way.

Gravity did the rest

June turned the drift into a cascade. On June 18 STRC closed at a then-record-low $88.59 on 10.8 million shares — the heaviest session of the entire slide — and Strategy's STRC at-the-market issuance stopped: every subsequent weekly filing shows zero shares sold, with $17.5 billion of authorized capacity sitting unused. The ATM lever only works above par; below it, the same program that once absorbed excess demand becomes a standing threat of supply. By June 26, amid a broad drawdown across the Strategy complex — MSTR closed that day at $82.31, STRD had closed at $50.00 the session before, and the company would book an $8.32 billion quarterly loss on its bitcoin holdings — STRC closed at $74.57, a quarter below its stated amount.

The refill, governed this time

The June 29 answer — the Digital Credit Capital Framework — reads as a point-by-point repudiation of the drawdown. The reserve got a Board-approved policy: it “may be used only to support the payment of preferred stock dividends and interest expense,” any other use requires Board authorization, and it carries a floor of twelve months of coverage. The STRC dividend went to 12.00%. The Board authorized $1 billion of preferred repurchases and $1 billion of common repurchases, and a bitcoin monetization program permitting up to $1.25 billion of BTC sales — under 2.5% of holdings — primarily to fund the reserve itself, with dividend service and repurchases as subordinate uses.

The market graded the announcement, not the execution. STRC jumped from $74.57 to $88.58 in the seven sessions after the framework — **+$14.01 of the eventual +$20.44 recovery, 69% of the whole move, on zero buybacks**. Then came the cleanest natural experiment in the story: between July 6 and July 17 the reserve climbed from $2.55 billion to $3.225 billion while STRC *fell* 3.7%. The refill, on its own, moved coverage from 17 toward 22 months and moved the price down. Whatever was repricing STRC, it was not the reserve balance per se.

The reserve kept climbing — $3.75 billion by July 26, $4.0 billion by August 2, roughly 27 months of coverage — funded by MSTR common ATM sales (over $1.5 billion across July) and selective bitcoin sales. The rebuild matters enormously for the credit; it simply is not the thing the tape was paying for week to week.

What the buybacks actually did

The first repurchases came July 20–26: 288,930 shares for $25.0 million, about 5.5% of that week's volume. The next week tripled it: 912,143 shares for $81.2 million, 13.9% of weekly volume — funded, notably, by $52.3 million of bitcoin-sale proceeds and $28.9 million of MSTR ATM proceeds — the reserve's policy limits it to dividends and interest, and any other use would require specific

Board authorization, which has not been given. Cumulatively that is 1.15% of the class and 10.6% of the authorization.

Did it move the price? We regressed STRC's daily returns on STRD and STRF — same issuer, same credit, and zero repurchases, though both were eligible under the same authorization; management simply bought only STRC — over the five weeks before the buyback began ($R^2 = 0.90$) and measured the abnormal return during the buyback window. The headline answer says yes: a cumulative abnormal return of +12.6% ($t = 2.5$). But the result is fragile. Force the estimation alpha to zero and it falls to +6.6% ($t = 1.3$); also drop July 31 and it collapses to +1.8% ($t = 0.4$). Nearly the entire measured effect is one session — July 31, when the dividend was held at 12% and STRC closed flat while STRD fell 3.8% and STRF 3.4%. That single print is the best evidence the bid does something: it absorbed a complex-wide selloff. It is also one observation.

The final leg makes the point from the other side. From August 3–7, STRC rose 6.2% — while STRD, with no buyback support at all, rose 14.0%. The sibling without the bid outran the sibling with it. That is beta to a recovering complex, not a buyback premium.

The ranking

1. **The reserve drawdown** started it. A 61% depletion of the dividend buffer, disclosed after a twenty-week gap, is the proximate trigger for the peg break.
2. **The June 29 framework** reversed it — roughly two-thirds of the recovery, priced on announcement. Governance was the product: the same dollars, ring-fenced, bought a different multiple.
3. **The ATM shutoff** quietly removed a standing seller. Zero issuance since mid-June against $17.5 billion of capacity is a larger flow change than any buyback week.
4. **Complex beta** — MSTR +21% and STRD +32% off their late-June lows — carried STRC with it.
5. **The buybacks** rank last: small against the class, real as a signal (selling bitcoin to defend the preferred is costly, hence credible), fragile as a measured price effect.

Two things bound the trade from here. STRC is redeemable at the company's option at $101, so "near par" is the ceiling by design — this is credit convergence, not upside. And the week of August 3–7, the strongest of the recovery (+6.2%), sits in a disclosure window that had not yet been filed as of this writing; the next weekly 8-K will show whether the bid was even present for it.

The reserve, as disclosed

AS OF	BALANCE	SOURCE

21 Dec 2025	**$2.19B**	8-K filed 22 Dec 2025
4 Jan 2026	**$2.25B**	8-K filed 5 Jan 2026 — last balance for 20 weeks
25 May 2026	**$871M**	8-K filed 26 May 2026 — −61% vs 4 Jan
31 May 2026	**$900M**	8-K filed 1 Jun 2026
7 Jun 2026	**$1.0B**	8-K filed 8 Jun 2026
14 Jun 2026	**$1.1B**	8-K filed 15 Jun 2026
21 Jun 2026	**$1.4B**	8-K filed 22 Jun 2026
28 Jun 2026	**$2.55B**	framework 8-K, 29 Jun 2026 — ≈17 months of coverage
5 Jul 2026	**$2.55B**	8-K filed 6 Jul 2026
12 Jul 2026	**$3.0B**	8-K filed 13 Jul 2026
19 Jul 2026	**$3.225B**	8-K filed 20 Jul 2026
26 Jul 2026	**$3.75B**	8-K filed 27 Jul 2026 — ≈25 months of coverage
2 Aug 2026	**$4.0B**	8-K filed 3 Aug 2026
9 Aug 2026	**$4.65B**	8-K filed 10 Aug 2026 — ≈32 months of coverage (addendum)

Addendum · August 10, 2026 — the bid was present

The disclosure window this note flagged as open has now been filed. The August 10 8-K covers August 3–9 and answers the closing question directly: the bid was present — and it was the largest yet. Strategy repurchased **1,152,020 STRC shares for $108.6 million**, the third and biggest buyback week, taking the cumulative program to 2,353,093 shares and $214.8 million — about 2.2% of the class and 21.5% of the $1 billion authorization, with $785.2 million remaining.

The funding mix repeated the pattern, at greater cost. The entire $108.6 million was funded by bitcoin sales: 1,690 BTC at an average $64,262 — roughly 15% below the company's $75,385 average purchase price — leaving holdings at 840,447 BTC. The reserve, meanwhile, climbed to **$4.65 billion** as of August 9 — roughly 32 months of coverage on the company's $1.76 billion annual figure, by our arithmetic — funded by $650.0 million of the week's $653.1 million in MSTR common ATM proceeds (6,585,682 shares sold). The STRC ATM stayed at zero for an eighth consecutive week. The division of labor is now explicit in the filing's own footnotes: common-stock dilution refills the reserve; bitcoin sales fund the buyback.

The new week strengthens the ranking rather than revising it. The strongest week of the recovery did coincide with the largest buyback — but STRD, with no bid at all, rose 14.0% in the same sessions against STRC's 6.2%, so the beta reading stands. The signal, however, keeps getting costlier and therefore more credible: selling bitcoin below its average purchase price to retire preferred stock at a discount to its stated amount is exactly the sort of expensive commitment the June 29 framework promised. And day one graded the execution the way execution weeks have been graded all along: STRC closed at $94.35 on August 10, off 0.7% — the filings that reprice this security are announcements, not receipts.

Appendix — data and method

Market prices. Daily consolidated closing prices for STRC, STRD, STRF and MSTR (all Nasdaq-listed), split- and dividend-adjusted, December 1, 2025 – August 7, 2026, pulled August 8, 2026 from the Massive market-data API (v2 daily-aggregates endpoint). Bitcoin: composite BTCUSD daily aggregates from the same API, same pull date. Intraday figures (the June 26 low, volume shares) are from the same daily bars (high/low/volume fields). The February 26 – May 14 "peg" range ($99.29–$100.06) and the statement that STRC never closed above $99 after May 28 are computed over this closing-price series. Closing prints can differ by a few cents across venues and vendors (the August 7 STRC close prints $95.06 on some primary-listing sources against our consolidated $95.01); no claim in this note turns on differences of that size.

USD Reserve balances. Every disclosed balance from Strategy Inc (CIK 1050446) Form 8-K "USD Reserve Update" sections, EDGAR: $2.19B as of Dec 21, 2025 (filed Dec 22); $2.25B as of Jan 4, 2026 (filed Jan 5); $871M as of May 25 (filed May 26); $900M May 31 (filed Jun 1); $1.0B Jun 7 (filed Jun 8); $1.1B Jun 14 (filed Jun 15); $1.4B Jun 21 (filed Jun 22); $2.55B Jun 28 (framework 8-K, filed Jun 29); $2.55B Jul 5 (filed Jul 6); $3.0B Jul 12 (filed Jul 13); $3.225B Jul 19 (filed Jul 20); $3.75B Jul 26 (filed Jul 27); $4.0B Aug 2 (filed Aug 3). Balances include expected proceeds from unsettled ATM sales, per the filings' own language. We checked every 8-K filed between January 5 and May 26, 2026 for a balance disclosure and found none; the "no balance disclosed" shading in Figure 1 and the twenty-week gap claim rest on that sweep. The −61% figure is ($2.25B − $0.871B) ÷ $2.25B. Figure 1 plots each reading at the first trading session on or after its as-of date. Reserve-language vintages: the December 1, 2025 launch 8-K states the initial $1.44B balance, the intention to maintain at least twelve months of coverage "with the goal of ultimately covering 24 months or more," and the "sole and absolute discretion" clause; the "management-designated portion of Strategy's liquidity" phrasing first appears in the May 26, 2026 8-K. The USD Reserve Policy language ("may be used only to support the payment of preferred stock dividends and interest expense... Any other use requires Board authorization") is from the June 29, 2026 framework 8-K.

Repurchases and ATM issuance. Weekly 8-K "Repurchase Program Updates" and "ATM Update" tables: zero repurchases in every filing through July 19; 288,930 STRC shares / $25.0M for July 20–26 (filed Jul 27); 912,143 shares / $81.2M for July 27–August 2 (filed Aug 3), funded per that filing by $52.3M of bitcoin-sale proceeds and $28.9M of MSTR ATM proceeds, with $893.8M remaining under the $1B authorization. The same Aug 3 filing reports 1,638 BTC sold for $104.7M during that week and holdings of 842,138 BTC. STRC ATM issuance is reported as zero in every weekly ATM table from the June 22 filing (week of June 15–21) onward, with "available for issuance" unchanged at $17,510.8M; the suspension was first reported by The Block on June 18, 2026. MSTR common ATM sales in July (net proceeds): $466.7M (wk to Jul 12), $263.5M (Jul 19), $544.5M (Jul 26), $290.6M (Aug 2).

Share count and dividends. Q2 2026 Form 10-Q (filed Aug 3): 104,895 thousand STRC shares outstanding, $10.489B notional, as of June 30; approximately 104.6M shares / $10.46B after repurchases through July 24.

Q2 cash dividends paid: STRC $282.9M; all preferred series $400.2M. The ~$1.76B annual preferred-dividend-and-interest figure, the 17-month coverage at $2.55B, and the ~25-month coverage at $3.75B are company figures from the June 29 framework announcement and July 27 press release; the "about six months" coverage at $871M and "roughly 27 months" at $4.0B are our arithmetic on the company's $1.76B annual figure and are estimates. Dividend-rate history (11.50% June; 12.00% from July record dates; held at 12.00% on July 31) and the semi-monthly payment amendment (effective June 30) are from the 10-Q and the July 31 / August 3 8-K disclosures.

Event study. Daily log returns. STRC regressed on STRD and STRF (OLS with intercept), estimation window June 22 – July 17, 2026 (19 observations, $R^2 = 0.90$); event window July 20 – August 7 (15 observations). Cumulative abnormal return = Σ(actual − predicted); t-statistic = CAR ÷ (residual sd × $\sqrt{n}$). Reported variants: as estimated (+12.6%, t = 2.5); intercept forced to zero (+6.6%, t = 1.3); intercept zero and July 31 excluded (+1.8%, t = 0.4). The phase decomposition in Figure 1 (+14.01 / −3.29 / +4.17 / +5.55 points) is closing-price arithmetic between event dates, not a model. STRD and STRF are an imperfect control — they differ from STRC in coupon structure and duration — which is why the decomposition and the natural-experiment windows carry the argument rather than the regression alone.

Addendum (August 10, 2026). All addendum figures are from the Strategy Inc Form 8-K filed August 10, 2026 (EDGAR, accession 0001193125-26-341297), covering August 3–9, 2026: 1,152,020 STRC shares repurchased for $108.6M, with $785.2M remaining under the $1B preferred authorization; 1,690 BTC sold for $108.6M net of fees at an average $64,262, with holdings of 840,447 BTC at a $75,385 average purchase price; MSTR common ATM sales of 6,585,682 shares for $653.1M net, of which $650.0M was applied to the USD Reserve and $3.1M to cash; STRC ATM issuance zero, available capacity unchanged at $17,510.8M; and a USD Reserve balance of $4.65B as of August 9, inclusive of expected proceeds from unsettled ATM sales per the filing. The cumulative repurchase arithmetic (2,353,093 shares; $214.8M; ≈2.2% of the 104.9M-share class; ≈21.5% of the authorization), the ≈32-month coverage at $4.65B on the company's $1.76B annual dividend-and-interest figure, and the ≈15% gap between the average sale price and the average purchase price are our arithmetic and are estimates. The August 10 STRC close ($94.35, −0.7% vs the August 7 close of $95.01) is the regular-session closing price, pulled August 10, 2026 after the close from the Schwab quote API; it may differ by a few cents from other vendors' consolidated prints. STRD's August 3–7 move (+14.0%) is from the closing-price series described above; the addendum makes no claim about STRD's August 10 session.

Prior work. Our coverage of Strategy: the MSTR valuation and the Q2 2026 addendum.

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