IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
CHARACTER TECHNOLOGIES, INC.,[1]	Case No. 26-11603 (BLS)
Debtor.	

MOTION FOR LEAVE TO FILE LATE OMNIBUS REPLY IN SUPPORT OF BIDDING PROCEDURES MOTION AND JOINDERS THERETO

The debtor and debtor in possession in the above-captioned chapter 11 case (the "Debtor"), hereby files this motion (this "Motion") for entry of an order, substantially in the form attached hereto as **Exhibit A** (the "Proposed Order"), granting the Debtor leave to file the reply (the "Reply") attached hereto as **Exhibit B** in support of the *Debtor's Motion Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code for Entry of (I) an Order (A) Approving Bidding Procedures and Bid Protections, (B) Scheduling Certain Dates and Deadlines with Respect Thereto, (C) Approving the Form and Manner of Notice Thereof, (D) Approving the Designation of Disney Worldwide Services, Inc. as Stalking Horse Purchaser with Respect to the Disney Target Assets, (E) Authorizing the Debtor to Designate Additional Stalking Horse Purchasers for the Assets, (F) Establishing Notice and Procedures for the Assumption and Assignment of Contracts and Leases; and (II) an Order (A) Authorizing and Approving the Sale of Assets (B) Approving the Assumption and Assignment of the Assumed Executory Contracts and Unexpired Leases and*

[1] The Debtor and the last four digits of its taxpayer identification number are: Character Technologies, Inc. (8842). The Debtor's mailing address for purposes of the chapter 11 case is 700 El Camino Real, Suite 120, P.O. Box 1152, Menlo Park, CA 94025.

(C) Granting Related Relief [Docket No. 15] (the "Motion")[2] and for any joinders thereto likewise be filed with leave. In support hereof, the Debtor respectfully states the following.

JURISDICTION AND VENUE

1. The United States Bankruptcy Court for the District of Delaware (the "Court") has jurisdiction to consider this Motion under 28 U.S.C. §§ 157 and 1334 and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware dated February 29, 2012. Pursuant to Rule 9013-1(f) of the Local Rules of the United States Bankruptcy Court for the District of Delaware (the "Local Rules"), the Debtor confirms its consent to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

2. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue of this chapter 11 case and this Motion is proper in this district under 28 U.S.C. §§ 1408 and 1409.

3. The statutory bases for the relief requested herein are section 105 of title 11 of the United States Code, as amended (the "Bankruptcy Code"), rule 9006(b)(1)(A) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), and Local Rule 9006-1(d).

BACKGROUND

4. On October 12, 2026, the Debtor filed a voluntary petition for relief pursuant to chapter 11 of the Bankruptcy Code. The Debtor is operating its business and managing its property as debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in this chapter 11 case, and no official committee of unsecured creditors has been appointed in this chapter 11 case.

[2] All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

5. Additional factual background regarding the Debtor, including its business operations, its corporate and capital structure, and the events leading to the filing of this chapter 11 case, is set forth in detail in the First Day Declaration.

6. Pursuant to the *Order Shortening Time for Notice of the Debtor's Bidding Procedures Motion* [Docket No. 43], a hearing to consider approval of the Motion (the "Hearing") was scheduled for October 30, 2026 at 10:00 a.m. (ET) and any objections to the relief requested in the Motion were due be filed on or before October 23, 2026 at 4:00 p.m. (ET) (the "Objection Deadline"). The Debtor agreed to extend the Objection Deadline to October 27, 2026 at 5:00 p.m. (ET) for the U.S. Trustee.

7. Prior to the Objection Deadline, the coalition of states (the "States") filed *The Coalition of States' Objection to the Debtor's Motion Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code for Entry of (I) an Order (A) Approving Bidding Procedures and Bid Protections, (B) Scheduling Certain Dates and Deadlines with Respect Thereto, (C) Approving the Form and Manner of Notice Thereof, (D) Approving the Designation of Disney Worldwide Services, Inc. as Stalking Horse Purchaser with Respect to the Disney Target Assets, (E) Authorizing the Debtor to Designate Additional Stalking Horse Purchasers for the Assets, (F) Establishing Notice and Procedures for the Assumption and Assignment of Contracts and Leases; and (II) an Order (A) Authorizing and Approving the Sale of Assets (B) Approving the Assumption and Assignment of the Assumed Executory Contracts and Unexpired Leases and (C) Granting Related Relief* [Docket No. 66] (the "States' Objection").

8. On October 27, 2026, the Office of the United States Trustee for the District of Delaware (the "U.S. Trustee") filed the *United States Trustee's Objection to the Debtor's Motion Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code for Entry of (I) an Order*

(A) Approving Bidding Procedures and Bid Protections, (B) Scheduling Certain Dates and Deadlines with Respect Thereto, (C) Approving the Form and Manner of Notice Thereof, (D) Approving the Designation of Disney Worldwide Services, Inc. as Stalking Horse Purchaser with Respect to the Disney Target Assets, (E) Authorizing the Debtor to Designate Additional Stalking Horse Purchasers for the Assets, (F) Establishing Notice and Procedures for the Assumption and Assignment of Contracts and Leases; and (II) an Order (A) Authorizing and Approving the Sale of Assets (B) Approving the Assumption and Assignment of the Assumed Executory Contracts and Unexpired Leases and (C) Granting Related Relief [Docket No. 69] (the "U.S. Trustee Objection," and, together with the States' Objection, the "Objections"). Additionally, the Debtor received informal comments to the Motion from certain parties.

RELIEF REQUESTED

9. By this Motion, the Debtor respectfully requests entry of the Proposed Order granting the Debtor leave to file its Reply after the Reply Deadline (as defined below).

BASIS FOR REQUESTED RELIEF

10. Pursuant to 9006-1(d) of the Local Rules, "[r]eply papers by the movant, or any party that has joined the movant, may be filed by 4:00 p.m. prevailing Eastern Time the day prior to the deadline for filing the agenda." Del. Bankr. L.R. 9006-1(d).

11. As the agenda for the Hearing is required to be filed on October 28, 2026 at 12:00 p.m. (ET), the deadline to file a reply in support of the Motion under the Local Rules is October 27, 2026 at 4:00 p.m. (ET) (the "Reply Deadline").

12. While the Debtor received informal comments from the U.S. Trustee ahead of the Objection Deadline, and has engaged in discussions related to the same, the parties were unable to resolve all issues. In an effort to continue discussions with the U.S. Trustee, the Debtor extended

the Objection Deadline for the U.S. Trustee several times, including a final extension that was shortly after the Reply Deadline. While the extensions did not result in a full resolution, the issues between the parties were substantially narrowed, so the Debtor believes it was a beneficial use of time and is open to continuing to discuss issues in advance of the hearing. The Debtor also has engaged in discussions with the States regarding the States' Objection and narrowing the disputed issues. As a part of these discussions and in advance of the Reply Deadline, the Debtor shared the chart attached to the Reply with counsel to the States.

13. Given the timing of these discussions and extensions, however, it was not possible for the Debtor to file its Reply prior to the Reply Deadline or for parties to join such Reply by the Reply Deadline.

14. The Debtor seeks to file the Reply in support of the Motion and to set forth various positions regarding the remaining outstanding issues raised by various parties in interest through the informal comments and the Objections. The Debtor submits that the Reply will assist the Court in its consideration of approval of the relief requested in the Motion by further developing the record with respect to the issues raised in the Objections. Permitting the Debtor to file its Reply beyond the Reply Deadline is reasonable and appropriate under the circumstances. The Debtor further submits that no party-in-interest will be prejudiced by the filing of a late Reply and any joinders thereto based on the circumstances set forth herein.

NOTICE

15. Notice of this Motion will be provided to: (a) the U.S. Trustee; (b) counsel to Disney; (c) the Debtor's largest unsecured creditors (excluding insiders); (d) counsel to the States; and (e) all other parties that have filed a notice of appearance and demand for service of papers in

the chapter 11 case as of the date hereof. Given the nature of the relief requested herein, the Debtor submits that no other or further notice is necessary.

CONCLUSION

WHEREFORE, the Debtor respectfully requests entry of the Proposed Order, granting the relief requested herein and such other and further relief as is just and proper.

Dated: October 27, 2026
Wilmington, Delaware

WILSON SONSINI GOODRICH & ROSATI, P.C.

/s/ Erin R. Fay

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Proposed Counsel to the Debtor and Debtor in Possession

EXHIBIT A

Proposed Order

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
CHARACTER TECHNOLOGIES, INC.,[1]	Case No. 26-11603 (BLS)
Debtor.	**Ref. Docket No. ___**

ORDER GRANTING MOTION FOR LEAVE TO FILE LATE REPLY TO OBJECTIONS TO DEBTOR'S BIDDING PROCEDURES MOTION AND JOINDERS THERETO

Upon consideration of the motion (the "Motion")[2] of the above-captioned debtor and debtor in possession (the "Debtor") for entry of an order (this "Order") granting the Debtor leave and permission to file the Reply and any joinders thereto after the Reply Deadline;; and it appearing that this Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334 and the *Amended Standing Order of Reference* from the United States District Court for the District of Delaware dated February 29, 2012; and it appearing that venue of this chapter 11 case and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and this Court having found that this is a core proceeding pursuant to 28 U.S.C. § 157(b)(2) and that it may enter a final order consistent with Article III of the United States Constitution; and it appearing that proper and adequate notice of the Motion has been given under the circumstances and in accordance with the Bankruptcy Rules and Local Rules and that no other or further notice is necessary; and after due deliberation thereon; and this Court having found that the relief herein is in the best interest of the Debtor's estate; and good and sufficient cause appearing therefor:

[1] The Debtor and the last four digits of its taxpayer identification number are: Character Technologies, Inc. (8842). The Debtor's mailing address for purposes of the chapter 11 case is 700 El Camino Real, Suite 120, P.O. Box 1152, Menlo Park, CA 94025.

[2] Capitalized terms used but not defined herein shall have the meanings given to such terms in the Motion.

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED as set forth herein.

2. Pursuant to Local Rule 9006-1(d), the Debtor is granted leave and permission to file the Reply and parties in interest are granted leave and permission to file any joinders thereto, and the Reply and any joinders thereto are deemed timely filed as a matter of record in the chapter 11 case.

3. This Court retains jurisdiction with respect to all matters arising from or related to the implementation, interpretation, and enforcement of this Order.

EXHIBIT B

Reply

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
CHARACTER TECHNOLOGIES, INC.,[1]	Case No. 26-11603 (BLS)
Debtor.	**Ref. Docket Nos. 15, 58, 66, & 69**

DEBTOR'S OMNIBUS REPLY IN SUPPORT OF BIDDING PROCEDURES MOTION

The debtor and debtor in possession in the above-captioned case (the "Debtor") hereby submits this reply (the "Reply") in support of its request for entry of the proposed bidding procedures order, approving, among other things, the Bidding Procedures, the Bid Protections, and the designation of Disney as a stalking horse bidder, as set forth in the Debtor's sale and bidding procedures motion [Docket No. 15] (the "Motion")[2] and in response to (i) the *Notice of Interest and Reservation of Rights by the Coalition of the State Attorneys General Regarding the Debtor's Outstanding Regulatory, Safety, and Privacy Issues* [Docket No. 33] (the "Statement of Interest"), (ii) the *Florida Attorney General's Joinder to Notice of Interest and Reservation of Rights by the Coalition of the State Attorneys General Regarding the Debtor's Outstanding Regulatory, Safety, and Privacy Issues* [Docket No. 58], and (iii) the objections to the Motion filed by the coalition of states (the "States") [Docket No. 66] and the Office of the United States Trustee for the District of Delaware (the "U.S. Trustee") [Docket No. 69] (collectively, the "Objections"). In support of this Reply, the Debtor relies upon and incorporates by reference the

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[2] Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Motion or the First Day Declaration (as defined below). The portions of the Motion related to the approval of transactions are not discussed herein or before the Court for purposes of the October 30, 2026 hearing.

Declaration of Colin M. Adams in Support of the Debtor's Chapter 11 Petition and First Day Motions [Docket No. 18] (the "First Day Declaration") and the *Declaration of Adam Dunayer in Support of the Debtor's Bidding Procedures Motion* [Docket No. 17] (the "Dunayer Declaration"). In further support of this Reply, the Debtor respectfully states as follows:

PRELIMINARY STATEMENT

1. As detailed in the First Day Declaration, prior to the Petition Date, the Debtor underwent an extensive, year-long search for strategic and financial acquirors or partners in hopes of finding a path forward for the continued operation of its business. The Debtor and its prior investment banker received consistent feedback during this period that, although the Debtor's product and engaged user base were impressive, the litigation and regulatory environment surrounding the Debtor's product created significant transaction uncertainty. At the same time, the Debtor faced employee attrition issues in the highly competitive AI talent market, which posed genuine operational risk, as the Debtor requires key personnel to constantly monitor and ensure user safety. Further, the substantial cost of running the Character.AI platform and mounting legal expenses in connection with the States' litigation and investigations contributed to the Debtor's unsustainable burn rate.

2. Throughout this same period, and prior, the Debtor implemented significant, voluntary changes to its platform and operations to improve safety, which the States largely ignore. Indeed, the Debtor vehemently disagrees with the States' contention that the Character.AI platform is unsafe or misleading to consumers. As detailed herein, the platform – ***as it has existed for some time*** – significantly complies with the States' list of "demands" set forth in their Statement of Interest. Notwithstanding, the Debtor's precarious financial situation, and the risk that, in the absence of a successful sale process, the Character.AI platform that is

beloved by millions of users will be shut down, the States appear intent on continuing value-destructive efforts to legislate through litigation against the Debtor.

3. Also as detailed in the First Day Declaration, in the face of these substantial legal, regulatory, and operational headwinds, and following a year-long marketing effort that had not resulted in an actionable proposal, the Debtor received interest in a strategic transaction from Disney and one other party in or about August of 2026. The Initial Transaction Committee considered both parties' proposals, including, among other things, the relevant value that each would bring, the likelihood of the proposals being actionable, the path for the Debtor to further maximize value, and the overall benefit to the Debtor and its stakeholders. After careful consideration, the Initial Transaction Committee determined the Disney transaction was superior.

4. Indeed, the Disney transaction provides significant benefits to the Debtor, including the $5.5 million up-front payment, material cost-savings and management of substantial attrition risk through Disney's willingness to extend offers to the Debtor's employees and, in tandem, permit such employees to provide transition services back to the Debtor. Without this arrangement, the Debtor would likely have been unable to continue operations or pursue the value-maximizing sale process contemplated by the Bidding Procedures. The entirety of the Disney transaction, including the Bidding Procedures and Bid Protections, has been negotiated in good faith and at arms' length between the Debtor and Disney. The transaction was carefully considered, negotiated and approved by the Initial Transaction Committee and the current Restructuring Committee, as applicable, each comprised solely of independent directors.

5. In addition to the foregoing and significant benefits to the Debtor if Disney is not the Winning Bidder, Disney also agreed to provide transition services to one Winning Bidder under the terms of the Winning Bidder TSA, and to permit such Winning Bidder to extend

employment offers to 80% of the Debtor's former employees now with Disney and to work in good faith to transition such employees should they accept. The Court should not be swayed by the States' attempt to mischaracterize these value accretive terms requested by the Debtor – which Disney was under no obligation to agree to – as bid-chilling when, in fact, they provide substantial benefits to the Debtor's sale process. Similarly, the States' objections to the Bid Protections are misplaced. The Bid Protections were a negotiated term of the transaction and were necessary to induce Disney to serve as a stalking horse bidder. The amount – 3.5% of the cash purchase price of $20 million – is reasonable and in-line with bid protections routinely granted in Chapter 11 cases. Indeed, the Debtor estimates the overall cost-savings from Disney's willingness to extend employment offers to the Debtor's employees and provide the free TSA services itself exceeds $5 million. As such, the actual transaction value to the Debtor is much higher, but Disney agreed to a break-up fee based solely on the cash price.

6. As set forth in the Motion, the Bidding Procedures reflect a sound exercise of the Debtor's business judgment and are designed to promote active bidding through a fair, fulsome and transparent process. As detailed herein and in the chart of responses attached hereto as **Exhibit A**, the issues raised in the Objections: (a) are sale-related issues that are not presently before the Court, (b) have been mooted or resolved by changes to the proposed form of Bidding Procedures Order, a revised version of which has been filed contemporaneously herewith, or (c) otherwise lack merit and should be overruled. For these reasons, the Court should overrule the Objections and approve the Motion as it pertains to the proposed Bidding Procedures (modified as reflected in the revised proposed order).

BACKGROUND

A. General Background

7. On October 12, 2026 (the "Petition Date"), the Debtor filed a voluntary petition for relief pursuant to chapter 11 of the Bankruptcy Code. The Debtor is operating its business and managing its property as debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in this chapter 11 case, and no official committee of unsecured creditors has been appointed.

8. The Debtor is a first in kind artificial intelligence ("AI") entertainment platform that allows users to have immersive, multimodal experiences with fictional or imagined characters. What started as a platform to have one-on-one chats tailored to user preferences has evolved to become a category leader in entertainment AI. Today, the Character.AI platform generates stunning visuals that become part of a story, creates dynamic video content with AI characters, and actively augments videos and stories with rich audio experiences to enhance immersion. In its four-year lifespan as an active platform, Character has amassed a large and engaged user base. The burgeoning and evolving field of AI entertainment, however, has proven to be costly to develop and grow. These high costs, coupled with potential litigation-related liabilities and regulatory engagement have contributed to the Debtor's inability to generate sufficient cash flows to support its business in the present form.

9. The Debtor commenced this case to engage in value-maximizing sale transactions for the benefit of its stakeholders. As noted above, the Debtor entered this case with the benefit of Disney (i) serving as a stalking horse bidder and setting a baseline bid for the sale of certain of the Debtor's assets and (ii) having agreed to provide transition services through the assistance of certain of the Debtor's former employees that Disney has hired. The Debtor is running a

postpetition marketing and sale process to solicit higher or better offers for any or all of its assets for the benefit of stakeholders.

10. A more detailed discussion of the events leading up to the Petition Date and the facts and circumstances supporting the relief requested in the Motion are set forth in the First Day Declaration, the Dunayer Declaration, and the Motion.

B. The Debtor's Trust and Safety Policies and Procedures

11. As detailed in the First Day Declaration, Character spent years developing robust safety and oversight technology for its AI products. Indeed, Character has invested significant time, money, and resources to engage in a complete reimagination of the way it develops and provides products to ensure their safety. For example, it developed technology that can infer users' ages based on their conversations, detect harm on a long-term basis and classify different safety risks. In addition, its technology continues to develop long-term harm detection that can recognize language, patterns, and behaviors from users that might indicate a user's propensity to potentially engage in harmful behavior. The technology has optimized safety classifiers that are continuously monitored to enhance user safety.

12. As to changes for younger users, in November 2024, Character developed and deployed a separate model for under-18 users with additional safety controls to provide a more age-appropriate experience for these users. In developing this model, Character's guiding principle was to steer the model away from non-age-appropriate responses or interactions, reducing the likelihood of under-18 users encountering, or causing the model to return, certain sensitive or suggestive content. This included several character and content filtering updates, adding "time spent" notifications and a parental insights tool.

13. Over several months beginning in October 2025, Character introduced processes to further restrict children under the age of 18 from open-ended chatting on the platform. In this regard, Character spent months consulting experts and designing thoughtful approaches to reducing and eventually eliminating under-18 users' ability to use the open-ended chats over a recommended timeframe. Throughout the entire process, Character provided resources and support, along with information tools for the users and their parents.

14. The Statement of Interest glosses over or simply ignores these significant, voluntary developments in favor of rehashing disputed allegations of past events. Further, the Character.AI platform – ***as it has existed for some time*** – largely comports with the States' various "demands" set forth in the Statement of Interest, as detailed in the following chart:

States' Demands	Debtor's Response
Age assurance. Implementing and maintaining effective age-verification or age assurance measures that do not rely solely on self-declared birthdates.	The Debtor employs a multi-layered approach to age assurance designed to place users in the age-appropriate version of the services. **It is not solely reliant on self-declared birth dates.** This approach includes the Debtor's neutral age gate, presented to all users at registration, and an age assurance process combining technical measures, analysis of various user-activity signals, and third-party verification technology. Using various signals, if the Debtor's age assurance system recognizes a user as likely under 18 years of age, the user is notified, automatically moved to the under-18 experience, and given the option to verify their age if the user believes the assessment is inaccurate. Users are then generally able to verify their age by taking a selfie, which is processed by a reputable third-party verification provider. If such provider cannot reliably confirm the user is an adult through a selfie, the user must upload a government ID to verify their age. The systems and the associated signal set are subject to ongoing accuracy monitoring and periodic review.
Protections for minors. Maintaining restrictions on minors' access to open-ended chats and safeguarding minors from sexual, violent, and other harmful content in Stories	Under-18 users **cannot** have open-ended chats on the Debtor's platform and are prevented from viewing restricted content across the entire platform, including Stories.

States' Demands	Debtor's Response
and non-chat product offerings.	The Debtor utilizes a team of roughly 79 individuals responsible for ensuring that its trust and safety policies are upheld and maintained. The Debtor also utilizes a system of AI-enabled "classifiers" that constantly monitor and filter content, characters, and user-uploaded images for violations of its safety policies. The classifiers and the trust and safety team actively detect and filter out harmful content on the platform, including (but not limited to) in the following categories: sexual content; sexual content involving minors; violence; self-harm and eating disorders; and hate speech. In addition, under the TSA, the Debtor also has access to roughly 17 individuals now employed with Disney who can assist in this area.
Removal of misleading chatbots. Removing characters that hold themselves out as therapists, psychologists, doctors, attorneys, or other licensed professionals.	The Debtor disputes the States' contention that its characters are misleading. All characters include prominent disclaimers that state: "This is an A.I. chatbot and not a real person. Treat everything it says as fiction. What is said should not be relied upon as fact or advice." Furthermore, all characters that refer to licensed professionals prominently display an additional warning that states "This is not a real person or licensed professional. Nothing said here is a substitute for professional advice, diagnosis, or treatment."
Crisis safeguards. Maintaining content moderation and crisis-response protocols that detect and respond to self-harm, suicide, eating-disorder, and substance-abuse content and that cannot be defeated with a simple click-through.	Character's systems continuously monitor for self-harm content and escalate prompts to users when additional risk is detected. Character provides users with access to bespoke self-harm resources and direct connections to qualified crisis counselors and support entities across the globe. Character also employs cutting-edge systems to detect users in crisis and flag these incidents for human intervention. The platform displays a pop-up in response to user inputs when chatting with characters where certain words or phrases related to suicide or self-harm are detected. The pop-up reminds users that immediate help is available, and provides contact information for a non-profit, global helpline that offers free, anonymous

States' Demands	Debtor's Response
	emotional support. Character also employs a dedicated self-harm and suicide crisis response pipeline, called Guardian.[3] The system evaluates various signals to assess whether a user may be at risk. It assigns a risk level that determines what support is surfaced to that user, ranging from in-chat crisis resources and a persistent resource page to pathways with third-party partners offering emotional support and handoff to licensed professionals.
Privacy Program. Implementing and maintaining a Privacy Program that includes reasonable safeguards, accurate disclosures, risk assessments, and required consent requirements, including prior to the processing of sensitive data such as health information disclosed in chats.	Character respects user privacy through transparency (e.g., its terms of service, privacy policy, and regional privacy disclosures), implementation of internal restrictions of use of user data, and risk assessments. Character obtains user consent where required. Character's terms of service include a statement that: "[Users] agree not to submit any content that ... poses a privacy or security risk to any person."
Advertising opt-outs. Disclosing any sale of personal data or disclosure for targeted advertising, providing functional opt-out mechanisms that apply at the account level rather than device by device, and honoring opt-outs consumers previously exercised.	Character provides sale-of-data and target-advertising opt outs for all users in states where legally required to do so at the account level and honors such opt outs.
Limits on secondary use. Refraining from using chat content and related data to train or fine-tune models, or for advertising or other commercial purposes, beyond the uses to which consumers and parents validly consented.	Character does not share chat content for advertising purposes. Users in the United Kingdom and European Union can opt out of their data being used to train the Company's models.
Access and deletion. Maintaining consumers' ability to access the data held about them and allowing all consumers the opportunity to delete their data prior to any sale of that data.	Character allows users to request export and/or deletion of their data through its automated systems and honors such requests.
Truthful marketing. Refraining from false or misleading representations about the product's safety, its suitability for minors, whether its characters are human, or any character's professional credentials.	Character honestly markets its products and services and does not suggest or advertise that the characters on its platform are human. Rather, as noted above, all characters include prominent disclaimers that state: "This is an A.I. chatbot and not a real person. Treat everything it says as fiction. What is said should not be relied upon as fact or advice." Also as noted above, all characters that refer to licensed professionals prominently display an additional warning

[3] Guardian is designed to surface help to users who may be at risk rather than to remove content. It is not a clinical intervention.

States' Demands	Debtor's Response
	that states "This is not a real person or licensed professional. Nothing said here is a substitute for professional advice, diagnosis, or treatment."

REPLY

15. The Debtor commenced this Chapter 11 case, with the benefit of the Stalking Horse Agreement, to pursue a value-maximizing sale process for all or substantially all if its assets. The Bidding Procedures and the related process timeline are a core component of that process and were negotiated in good faith and at arms' length with Disney. As noted, the Disney transaction provides substantial benefits to the Debtor, and Disney has made several concessions, including its agreement to extend employment offers to the Debtor's former employees, to provide the services contemplated under the TSA and Winning Bidder TSA, and to permit one Winning Bidder to seek to hire 80% of the Debtor's former employees currently with Disney. Contrary to the contentions of the States and the United States Trustee, these meaningful concessions do not chill bidding. Rather, they have ensured and enhanced the Debtor's ability to run a value-maximizing process in this Chapter 11 case.

A. The Bidding Procedures Are Fair, Reasonable, and an Appropriate Exercise of Business Judgment

16. The standard of review for the relief requested in the Motion is the business judgment test. In the Third Circuit, courts have authorized transactions outside the ordinary course of business when the transaction has a sound business purpose and is proposed in good faith. *See Myers v. Martin (In re Martin)*, 91 F.3d 389, 395 (3d Cir. 1996); *Dai-Ichi Kangyo Bank, Ltd. v. Montgomery Ward Holding Corp. (In re Montgomery Ward Holding Corp.)*, 242 B.R. 147, 153 (D. Del. 1999); *In re Delaware & Hudson Ry. Co.*, 124 B.R. 169, 176 (D. Del. 1991). In evaluating whether this business purpose exists, "courts consider a variety of factors, which essentially represent a 'business judgment test.' . . . [A] bankruptcy judge must not blindly

follow the hue and cry of the most vocal [creditor] groups . . . .” *Montgomery Ward*, 242 B.R. at 153.

17. Courts also recognize that procedures intended to enhance competitive bidding are consistent with the goal of maximizing the value received by the estate and, therefore, are appropriate in the context of bankruptcy transactions. *See In re Edwards*, 228 B.R. 552, 561 (Bankr. E.D. Pa. 1998) (“The purpose of procedural bidding orders is to facilitate an open and fair public sale designed to maximize value for the estate.”); *In re Food Barn Stores, Inc.*, 107 F.3d 558, 564–65 (8th Cir. 1997) (in bankruptcy sales, “a primary objective of the [Bankruptcy] Code [is] to enhance the value of the estate at hand.”).

18. As detailed in the Motion, the Bidding Procedures are reasonable and appropriately tailored to ensure a full, fair, and transparent marketing process under the circumstances of this Chapter 11 case. For example, the proposed sale timeline appropriately reflects the significant expense associated with continuing to safely operate the Character.AI platform while the Debtor solicits bids that would see the platform continue. Put simply, given the Debtor’s substantial cash burn, time is of the essence. Relatedly, the States’ contention that all bidders should be subject to the same outside closing date as Disney, and suggestion that Disney’s outside date was set later to chill bidding, reflects a fundamental misunderstanding of the facts and circumstances of this case. The Debtor does not need to operate the Character.AI platform for any further period to close the Disney transaction. However, the Debtor ***does*** need to continue operating the platform for purposes of soliciting competing bids that would see the platform continue. Platform bids thus necessitate an earlier outside closing date, as the cost of maintaining the safe operation of the platform through approval and closing is substantial. The

Debtor determined the closing date for competing bidders in consultation with its advisors; Disney had no role in selecting such date.

19. Similarly, the Objections' challenges to the minimum overbid and successive bid increments should be overruled. The Bid Procedures were developed in close consultation with the Debtor's investment banker, Houlihan Lokey. As set forth in the Dunayer Declaration, the Bidding Procedures were designed to provide the Debtor with flexibility to solicit proposals, negotiate transactions, hold an auction, and consummate a transaction (or multiple transactions) to ensure that the Assets are sold for their highest or otherwise best value. The minimum bid and successive bid increments are reasonable and appropriate in the estimation of the Debtor and Houlihan and were negotiated in good faith and at arms' length with Disney. The minimum bid increment of $1 million applies only to bids that would top the $20 million Disney proposal and, as such, as reasonable as a percentage of value of that bid.

20. The Bid Procedures also include flexibility for the Debtor to modify bid increments during the Auction on notice to participants, including the ability to set successive bid increments. This is ordinary course and will not chill bidding or otherwise prevent the estate from obtaining the highest or otherwise best offer for the Assets. To the contrary, the Bid Procedures provide needed flexibility to ensure an efficient and value-maximizing Auction process. The States' contention that the minimum overbid should not be set against the total purchase price under the Stalking Horse Agreement because Disney agreed to provide $5.5 million up front is also unfounded. The total purchase price under the Stalking Horse Transaction Agreement is $20 million in cash plus numerous other benefits by way of the TSA and Disney should not be penalized for having advanced $5.5 million of that price prepetition.

21. Lastly, the States appear to hold a fundamental misunderstanding of the relief requested in the Bidding Procedures Order. The Debtor is not seeking approval of the Initial Transaction or the terms of the Stalking Horse Agreement through the Bidding Procedures Order. The Debtor has added language to the revised proposed order to clarify this issue. Similarly, the revised proposed order clarifies that competing bidders are not required to include a release or exculpation of Disney in their proposed form of sale order (which was never the case in any event).

B. The Bid Protections Are Reasonable and Appropriate

22. Also as detailed in the Motion, the Bid Protections were a material and necessary inducement for Disney to enter into the Initial Transaction and the Stalking Horse Agreement and are appropriate under the circumstances. The States' argument that the Bid Protections were not necessary to induce Disney to serve as a stalking horse bidder ignores the facts. The Bid Protections were a negotiated component of the overall transaction since the outset, as reflected in the parties' term sheet. It is simply inaccurate to say that Disney would have agreed to act as a stalking horse bidder without the Bid Protections. Moreover, it is unlikely the Debtor could run any process without the benefits of the Disney transaction.

23. Further, this Stalking Horse Transaction Agreement is important to the Debtors' marketing process. In addition to the value of the proposed transaction itself, the presence of a stalking horse bid drives value to the competitive bidding process for the benefit of all stakeholders by establishing a baseline for other bids. *See In re Reliant Energy Channelview LP*, 594 F.3d 200, 207 ("[I]t is plausible to believe that an initial bid, ordinarily or perhaps even always, will provide a benefit to an estate because it will establish a floor price for the assets to be sold."). The Stalking Horse Transaction Agreement demonstrates to the market that the Debtor has a legitimate bidder for certain of its assets and sets a credible price floor.

24. At 3.5% of the cash purchase price, or $700,000, the Bid Protections are well within the range of reasonableness and consistent with bid protections granted in this district. *See, e.g.*, *In re American Tire Distribs., Inc.*, No. 24-12391 (CTG) (Bankr. D. Del. Nov. 26, 2024) (authorizing bid protections in an amount equal to 4% of the cash portion of the purchase price); *In re SunPower Corp.*, No. 24-11659 (CTG) (Bankr. D. Del. Aug. 29, 2024) (authorizing bid protections in an amount equal to 3 percent of the purchase price); I*n re EXP OldCo Winddown, Inc., (f/k/a Express, Inc.),* No. 24-10831 (KBO) (Bankr. D. Del. June 6, 2024) (authorizing bid protections of almost 6 percent of the purchase price); *In re Zymergen Inc.*, No. 23-11661 (KBO) (Bankr. D. Del. Nov. 20, 2023) (authorizing bid protections in an amount equal to 3.2 percent of the purchase price).

25. The States argue that the Court should disregard the $5.5 million up-front payment for purposes of calculating the Bid Protections, reasoning that such amount has been irrevocably paid and will be retained by the Debtor regardless of whether Disney is selected as the winning bidder. That argument, however, ignores the totality of benefits provided by the Disney transaction, including the free transition services which Disney could have sought to include in the calculation of the full value of its transaction for purposes of the break-up fee calculation. Again, Disney was under no obligation to structure its bid such that the Debtor would receive $5.5 million of the purchase price up-front and on a fully non-refundable basis. Disney should not be penalized for granting meaningful concessions.

C. The Debtor is Willing to Consent to a Consumer Privacy Ombudsman Under Appropriate Circumstances

26. The Debtor believes that its privacy policy, as in force on the Petition Date, permits the sale and transfer of user data in connection with this Chapter 11 case and, therefore, a consumer privacy ombudsman ("CPO") is not required here. Nonetheless, the Debtor is willing

to consent to the appointment of a CPO under appropriate circumstances, recognizing, for example, that the Debtor is operating under substantial liquidity constraints and thus cannot support a substantially extended process. The Debtor has engaged in discussions with the U.S. Trustee concerning the potential appointment of a CPO and is hopeful that this issue can be resolved consensually in advance of the hearing.[4]

D. The Remaining Issues Raised in the Objections Are Moot or Should Otherwise be Overruled for the Reasons Set Forth on the Chart Attached Hereto

27. The Objections raise various other arguments, as detailed on the chart attached hereto as **Exhibit A**. The Debtor's response to the same is set forth in the adjacent column and is incorporated herein by reference. For the reasons set forth in the chart, the Court should find that the issues raised therein are either moot on account of the Debtor's revisions to the proposed form of order or should otherwise be overruled.[5]

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[4] The Debtor reserves all rights in connection with such discussions and to further address the related issues set forth in the U.S. Trustee's Objection, which was filed shortly prior to the Debtor's deadline to file this Reply.

[5] The Debtor reserves the right to make additional changes to the revised form of proposed bidding procedures order prior to the hearing.

CONCLUSION

For the reasons set forth above, the Debtor respectfully requests that the Court overrule the Objections, enter the Bidding Procedures Order, and grant such other and further relief as is just and proper.

Dated: October 27, 2026
Wilmington, Delaware

WILSON SONSINI GOODRICH & ROSATI, P.C.

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EXHIBIT A

Chart of Responses to Objections

Responses to Issues Raised by the Coalition of States (the "AGs") and the Office of the United States Trustee for the District of Delaware (the "UST").

#	Raised By	Issue	Debtor Response
1	AGs (AGs' Obj. ¶¶ 17-18, 37(a))	**Order ¶ F (good-faith finding):** **AGs' Objection:** The finding is premature. The EPA and Term Sheet, including the Bid Protections, milestones and Disney's approval rights over the procedures, were fixed before the Restructuring Committee existed and without an investment banker. The AGs ask the Court to strike ¶¶ F and G or limit them to findings that the procedures are reasonable for conducting the Auction. AGs' Objection ¶ 37(a).	The Initial Transaction Committee, which then became the Restructuring Committee, was formed in early September 2026, oversaw and directed the negotiation regarding, and approved the Disney transactions, and bid procedures. As the findings relate to the bid procedures formulation and process, they are not premature. We will add a general caveat (discussed below) that the bid procedures order does not approve the sale. Precedent exists for this type of language (*see True Value Company, LLC* (Case No. 24-12337) and *In re PLX Pharma Inc. (n/k/a PLx Pharma Winddown Corp.*), (Case No. 23-10456) and it is appropriate as there were good faith negotiations, which are supported by the record evidence.
2	AGs (AGs' Obj. ¶¶ 25, 37(d))	**Order ¶¶ 4(c) and 8 (Bid Protections for Additional Stalking Horse Purchasers):** **AGs' Objection:** The AGs assert there must be an *O'Brien* showing at the time of designation. It notes the risk of stacking a second 3.5% fee on the same assets. AGs' Objection ¶ 25.	Issue addressed through addition of new language to paragraph 4 (and other relevant paragraphs) incorporating concept of "Additional Stalking Horse Supplement" which will disclose identity, price, Stalking Horse Agreement, Debtor connections, and bid protections and would provide for a hearing at least three days after such notice, with objections due at the hearing. Precedent exists for this structure. *See* [Dkt. No. 59] *In re Quanergy Systems, Inc.*, Case No. 22-11305 (CTG) (Bankr. D. Del.) (entered Dec. 21, 2022). As in *Quanergy*, the bidding procedures motion plus the Stalking Horse Supplement can provide sufficient support and process to authorize granting bid

#	Raised By	Issue	Debtor Response
			protections and affording such bid protections administrative expense treatment. Further, an Additional Stalking Horse bid cannot conflict with Disney's bid, so "fee stacking" is not possible.
3	UST & AGs (AGs' Obj. ¶¶ 27(c), 37(h)); (UST Obj. ¶ 34)	**Order ¶ 9 (Disney transition services):** **UST Objection:** Argues that certain aspects of the Bidding Procedures "appear to provide Disney with significant advantages that could chill bidding." **AGs' Objection:** The AGs object to the requirement that a competing winning bidder release Disney from all claims since August 1, 2026, including claims relating to "any related intellectual property use, including with respect to the Licensed IP" to obtain access to the transition services Disney promised (TSA § 8.1). The AGs' Objection requests that the release condition be struck. AGs' Objection ¶ 27(c).	The Debtor and Disney negotiated this issue to provide for a value maximizing process in these unique circumstances and to try to mirror what is provided in a traditional case under transition services agreement. Disney was under no obligation to agree to this arrangement. It is impractical for the Transferred Employees to provide transition services to more than one Winning Bidder and also do their jobs for Disney. Disney is unwilling to provide transition services without the release. If a bidder does not want to agree to the release, that is acceptable, but if it wants such services, it must provide a release. If bidders raise issues with this, the Debtor will discuss with Disney.
4	AGs (partial) (AGs' Obj. ¶¶ 28, 30, 37(j))	**Order ¶ 25 (Supplemental Sale Objections):** **AGs' Objection:** "The States request that the Court . . . (ii) move the Sale Objection Deadline to a date after the Debtor filed its notice of the Winning Bidder, with a supplemental objection deadline for issues arising from the Auction." AGs' Objection ¶ 30.	Paragraph 12(e) of the Proposed Order requires a notice of winning bidder(s) to be served after the Auction and allows for counterparties to agreements proposed to be assumed by such winning bidder(s) to raise issues related to adequate assurance of future performance after such notice is filed. Moreover, paragraphs 12(b) and 12(c) of the Proposed Order already provide procedures for objection to cure amounts and general assignability of contracts

#	Raised By	Issue	Debtor Response
			proposed to be assumed and assigned, which must be filed by the relevant Contract Objection Deadline. Paragraph 25 also permits supplemental objections after the Auction based on the conduct of the Auction, the Winning Bidder (if not a stalking horse) and any modifications to any stalking horse agreement. It is not practicable, possible, or necessary to permit all sale objections to be raised after the Winning Bidder notice. The Debtor will file its form of asset purchase agreement for buyers other than Disney and has filed a form of sale order. Objections can be raised to such documents within the timelines of the Federal Rules of Bankruptcy Procedures and supplemental objections can be raised as noted.
5	AGs (AGs' Obj. ¶¶ 26-27, 37(e))	**Bid Procedures (overbid and increments):** **AGs' Objection:** The AGs argue that the $21.7M floor ($20M + $700K + $1M) ignores the $5.5M non-refundable up-front payment paid by Disney prepetition that the estate keeps under any scenario. As a result, the AGs' Objection asserts that any bid above about $15.2M leaves the estate better off, such that the overbid amount should be reset against the $14.5M still at stake and that bids should be evaluated on the basis of net recovery. AGs' Objection ¶¶ 26-27.	The Debtor is not proposing any change to the minimum overbid or successive bid increments. These requirements only apply to bids that seek to make the bid of a Stalking Horse Purchaser (including Disney) not able to be consummated. The total purchase price under the Stalking Horse Transaction Agreement is $20 million in cash plus numerous other benefits by way of the transition services and Disney should not be penalized for having advanced $7.5 million of that consideration prepetition. In addition, Houlihan determined on the basis of its experience and in light of the circumstances of this case, that a $1 million minimum overbid was reasonable. Houlihan likewise established the initial bid increment at the Auction on the basis of its experience and its review of the circumstances. The Bid Procedures include flexibility for the Debtor to

#	Raised By	Issue	Debtor Response
			modify bid increments during the Auction on notice to participants and the Debtor does not believe that the successive bid increments will chill bidding or otherwise prevent the estate from obtaining the highest or otherwise best offer for the Assets.
6	UST & AGs (AGs' Obj. ¶ 27, ¶ 37(f)-(h)); (UST Obj. ¶ 34)	**Bid Procedures (special Disney provisions):** **UST Objection:** Argues that certain aspects of the Bidding Procedures "appear to provide Disney with significant advantages that could chill bidding." **AGs' Objection:** The AGs' Objection at ¶¶ 27 and 37, identifies "terms" that competing bidders face which "Disney does not," including the "(a) closing deadline . . . (b) [a]ccess to the employees who build the technology . . . (c) [t]he release toll . . . (d) 'substantially the same terms' . . . [and] (e) "[a]ll-cash requirement" that the AGs assert are improper and should be modified or removed as set forth in the AGs' Objection. Specifically, the AGs' Objection asserts that a single outside date should apply to all bidders. AGs' Objection ¶ 37(f). The AG Objection also asserts that Disney should make all Hired Employees reasonably available for diligence and recruiting, with no carve-out.	As described in the First Day Declaration [Docket No. 18], the transaction structure in this case was borne out of practical necessity and has components which cannot be unwound or undone, such as the transfer of the Transferred Employees. It is the Debtor's and Disney's contention that many of these terms, including, without limitation, a release for Disney connected to the transition services and the requirement that if bids directly compete with the Stalking Horse Transaction Agreement that they be on substantially the same or better terms than the Stalking Horse Transaction Agreement, are standard in cases of this kind, and are also common requests made by stalking horse bidders. Moreover, the Debtor believes that in comparison to certain requirements requested by stalking horse bidders these are relatively favorable to the estate. With respect to the closing deadline, as set forth in the First Day Declaration, the Debtor's business is expensive to run. The Disney transaction does not require the Debtor to continue operating its platform so a longer closing date for the Disney transaction is acceptable to the Debtor. However, a transaction that requires the Debtor to continue operating its platform has significant cost to the estate and the shorter timeline is reflective of that cost reality. If Potential

#	Raised By	Issue	Debtor Response
			Bidders propose a different date, the Debtor will discuss it with bidders at that time. With respect to access to the Transferred Employees, the access to employees for hiring and diligence set forth in the Bidding Procedures is what was negotiated and the Debtor determined was ultimately appropriate. It is not workable or necessary for the Debtor to access the entire former workforce for diligence. Disney was under no obligation to agree to these provisions, which permit a value maximizing process.
7	AGs (AGs' Obj. ¶¶ 17-20, 37(a)-(b))	**Prepetition Initial Transaction and releases:** **AGs' Objection:** The Bidding Procedures Order should not approve, ratify or find reasonable the EPA, the Initial Transaction, the TSA or any release, including the release of the former CEO (an insider). AGs' Objection ¶¶ 17-18 The Bidding Procedures Order should also provide that nothing in it constitutes a finding of good faith, arm's-length dealing or necessity (including as to ¶ G). AGs' Objection ¶ 17. All estate claims relating to the Initial Transaction should be preserved. AGs' Objection ¶¶ 19-20. A challenge period of at least [60] days after a committee is appointed (or, if none, after entry of the order) should be added. AGs' Objection ¶ 37(b). The AGs' Objection notes that the releases are Rule 9019 compromises and may be avoidable under §§ 544(b), 548 and 550. AGs' Objection ¶ 20.	The Proposed Order includes the addition of a new sentence to paragraph 1 to clarify that nothing in the Bidding Procedures Order approves the full terms of the Stalking Horse Transaction Agreement and the Debtor's entry into such agreement: "Notwithstanding anything to the contrary herein, this Order does not approve the full terms of the Stalking Horse Transaction Agreement or permit the Debtor to consummate the transactions set forth therein other than the Bidding Protections." Paragraph G is addressed above. The Debtor submits that the Bidding Procedures Order is not a financing order and a challenge period is not appropriate or necessary. The Bid Procedures Motion has been on file since October 13, 2026 and parties have sufficient time to assess and object to such motion, if necessary. If parties determine to serve discovery, it will be addressed as appropriate.

#	Raised By	Issue	Debtor Response
8	AGs (AGs' Obj. ¶¶ 21, 37(c))	**Purchased Employee Claims:** **AGs' Objection:** The Stalking Horse Transaction Agreement provides for the sale of the estate's unreleased claims against former employees Disney hired, including the former CEO, to Disney along with the other Disney Target Assets. The AGs' Objection asserts that although the Debtor states in the Bid Procedures Motion that it does not believe these claims have value, they were nevertheless included in the Disney Target Assets as a component of the transaction. AGs' Objection ¶ 13. The AGs' Objection asserts that the Debtor's D&O coverage may give them value. AGs' Objection ¶¶ 20-21. The AGs' Objection contends that the sale of the Transferred Employee Claims to Disney under the Stalking Horse Transaction Agreement amounts to a release under another name. AGs' Objection ¶¶ 19-20. The AGs' Objection contends that the Transferred Employee Claims should be excluded from the Disney Target Assets or marketed and sold separately. AGs' Objection ¶ 21.	The Debtor is marketing any and all of its assets, together or separately. Parties are free to bid on any assets they would like.
9	AGs (AGs Obj. ¶¶ 22-24, 37(d))	**Disney's Bid Protections under *O'Brien*:** **AGs' Objection:** The $700K Bid Protections are not "actually necessary to preserve the value of the estate." AGs' Objection ¶¶ 22-25. The AG Objection asks the Court to deny the Bid Protections proposed to be payable to Disney or limit them to documented postpetition out-of-pocket expenses under a lower cap, payable only from a closed alternative transaction. AGs' Objection ¶ 24.	The Bid Protections relate to the totality of the transaction with Disney and were negotiated in good faith. The transaction provides the Debtor $20 million of cash value and significant non-cash value by way of the free transition services. The actual value of the transaction is higher to the Debtor given the transition services being provided for free and the ability to run this sale process at all, which would not have been possible without access to the former workforce. The First Day Declaration [Docket No. 18] is based on,

#	Raised By	Issue	Debtor Response
			among other things, the personal knowledge of Colin Adams, the Debtor's CEO, with respect to the negotiations and the Dunayer Declaration is based on Mr. Dunayer's discussions with various Debtor representatives regarding, among other things, the negotiations and his extensive experience. The Debtor is prepared to proffer additional testimony on the significant interest and value maximizing sale process that is unfolding.
10	AGs (AGs Obj. ¶¶ 27(d), 37(h), 37(m))	**"Substantially the same terms" and the form of sale order:** **AGs' Objection:** The AGs assert that the Bidding Procedures require that Qualifying Bids be on terms substantially the same as or better than the SHA, which includes the estate's general release and exculpation of Disney. AGs' Objection ¶ 27(d). Competing bidders should not have to replicate Disney's releases and exculpation. The Bidding Procedures Order should state that it does not approve the form of sale order, including the "litigation claimants" injunction and plan-binding provisions (¶¶ 10, 15, 35, 36, 43). Competing Qualifying Bids need not include provisions comparable to those paragraphs.	The form of sale order proposed by Disney can serve as the base for other bidders, but such bidders can make any changes they propose. The Debtor will provide a form APA and other transaction documents for bidders seeking to acquire the Debtor's platform. Other bidders are not required to use the form of sale order proposed by Disney, including the terms providing for the releases and exculpations that are contemplated therein. While the Debtor believes it is sufficiently clear that the Bidding Procedures Order does not approve the form of sale order, comfort language can be added.
11	AGs (AGs' Obj. ¶ 27(e), 37(i))	**All-cash requirement:** **AGs' Objection:** Barring non-cash consideration (royalties, earn-outs, assumed liabilities) may exclude structures worth more to a creditor body facing litigation claims. The Debtor should be allowed to consider such alternative forms of	The Bid Procedures require cash consideration, which would encompass cash paid as a part of a royalty or earn-out. The Bid Procedures also require a buyer to note what liabilities it is assuming. As is always the case to determine the highest or best bid, the Debtor will view the value of a bid package based on numerous considerations. Also, the Debtor can make

#	Raised By	Issue	Debtor Response
		consideration in consultation with the Consultation Parties. AGs' Objection ¶ 37(i).	exceptions or otherwise adjust the procedures if necessary to maximize value.
12	AGs (AGs' Obj. ¶¶ 28-30, 37(j))	**Compressed timeline:** **AGs' Objection:** The Bidding Procedures allow 38 days of post-petition marketing. AGs' Objection ¶ 7. The Sale Objection Deadline (Nov. 13) falls before the Bid Deadline (Nov. 20), so creditors must object before knowing who the buyer is or what releases it demands. AGs' Objection ¶ 28. The Auction and Sale Hearing fall the week of Thanksgiving, with no committee appointed. *Id.* 11 U.S.C. § 363(m) mootness is a risk (*Boy Scouts*), and the milestones were set by Disney (*Fisker*). AGs' Objection ¶ 29. The AGs' Objection asks the Court to extend the Bid Deadline by at least [21] days and to move the Sale Objection Deadline to after the filing of a notice of Winning Bidder. The AGs' Objection also asks for prompt notice to all parties engaged in the prepetition process, including the second bidder in the September negotiations. AGs' Objection ¶ 30.	The Debtor extensively considered the timeline based on its own budget and cost needs, while also negotiating the timeline with Disney, and believes it provides sufficient time. As set forth in the First Day Declaration, the timeline takes into consideration the Debtor's monthly burn rate ($8-9 million/month), and the need to wind down the platform safely and with the support of Disney's transition services within the transition services period if a full platform sale is not possible. The timeline is also consistent with other sale timelines approved in this district. *See, e.g. Jo-Ann Stores, LLC* (Case No. 25-10068) (Bid deadline set for 34 days from petition date and sale objection deadline of 36 days from petition date); *True Value Company, LLC (*Case No. 24-12337) (Bid deadline and sale objection deadline each 25 days from petition date); *Food52, Inc.* (Case No. 25-12277) (sale objection deadline 29 days from petition date; bid deadline 36 days from petition date). The Bid Procedures already require notice to all parties that have expressed interest in the Debtor's assets in the past year. The staging of the objection deadlines is addressed above.
13	AGs (AGs' Obj. ¶ 31, 37(k))	**Disney's information rights:** **AGs' Objection:** Under the Stalking Horse Transaction Agreement, Disney receives advance	It is typical for stalking horse bidders to receive copies of pleadings and notices related to their proposed transaction as part of their bid protections

#	Raised By	Issue	Debtor Response
		copies of filings and notice of threatened objections (Stalking Horse Transaction Agreement § 5.3(a)). Notices are filled in "in consultation with Disney" (Bidding Procedures Order ¶ 30). Term Sheet § 10 limits the Debtor's contact with governmental authorities. The AGs' Objection asserts that Disney should have no rights beyond those of other Qualifying Bidders. AGs' Objection ¶ 31. The Bidding Procedures Order should confirm that the fiduciary-out (Bidding Procedures Order ¶ 31) applies notwithstanding the EPA, and that nothing limits the Debtor's communications with governmental units, the UST or any committee.	and in consideration for serving as a stalking horse. There is no requirement that the Debtor take comments from Disney, nor that it be bound to any suggestions Disney makes with respect to documents shared ahead of time. Moreover, Disney is not a Consultation Party and will not receive advance copies of bids. The EPA does not limit the Debtor's contact with governmental authorities. Rather, if there is a meeting with governmental authorities regarding the Proposed Transaction (i.e., only with respect to the license transaction, which the Debtor does not believe is implicated by current discussions with governmental authorities), Disney will be consulted, which is fair and expected. The proposed Bidding Procedures Order at paragraph 31 already clarifies that the fiduciary out applies broadly. However, the Debtor will add language to the Proposed Bidding Procedures Order clarifying that nothing in the EPA limits the Debtor's ability to communicate with governmental units, the UST, or any committee.
14	AGs (AGs' Obj. ¶¶ 32-34, 37(n))	**Inadequate Transaction Notice (Finding E):** **AGs' Objection:** The AGs' Objection asserts that the Transaction Notice only provides that the sale of the Assets will be "free and clear of all encumbrances." It does not disclose the injunction of "litigation claimants," among others, from asserting claims against Buyer Parties (including the Transferred Employees), the successor-liability bars, the approval of the EPA releases, or the deemed-	The Debtor will propose a revised notice to address these concerns.

#	Raised By	Issue	Debtor Response
		consent provision (*Mullane*). The AGs' Objection asks the Court to strike or condition Finding E and require a revised notice. The revised notice would be plain-language, served on personal-injury claimants and the Multistate Group, and posted on the Character.AI platform.	
15	AGs (AGs' Obj. ¶¶ 35, 37(l))	**Incomplete Local Rule 6004-1 disclosures:** **AGs' Objection:** The Bid Procedures Motion state there are "no agreements between Disney and the Debtor's current management," which is accurate only because the CEO already left. AGs' Objection ¶ 35. Before the Sale Hearing, the Debtor should file the Key Employee offer letters and retention terms, the Debtor's role in the retention program, the competing proposal and why it was rejected, committee minutes and materials, any valuation of the released and purchased claims, the original and amended TSA, and an explanation of the "substantially all assets" inconsistency. AGs' Objection ¶¶ 35(a)-(g).	The Debtor has made accurate disclosures in the Bid Procedures Motion.
16	UST & AGs (partial) (AGs' Obj. ¶ 36(vi) (reservation only))	**Consumer privacy ombudsman:** **UST Objection:** Appointment of a consumer privacy ombudsman is required. **AGs' Objection:** The AGs' Objection reserves rights regarding whether a consumer privacy ombudsman is required under 11 U.S.C. §363(b)(1), citing Disney personnel's access to user personal data under the TSA and the pending multistate, FTC and Texas investigations. AGs' Objection ¶ 36.	The Debtor and the UST are in discussions regarding appointment of a consumer privacy ombudsperson. Disney has no access to the Debtor's user data and is not purchasing personally identifiable information. Disney does not believe that the Stalking Horse Transaction Agreement should be reviewable by a consumer privacy ombudsperson because PII is an excluded asset.