

Exhibit 2

Declaration of John Phillips
(November 18, 2022)

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS**

KEVIN CLARKE, in his individual capacity,
TREVOR BOECKMANN, in his individual
capacity, HARRY CRANE, in his individual
capacity, CORWIN SMIDT, in his individual
capacity, PREDICT IT, INC., a Delaware
corporation, and ARISTOTLE
INTERNATIONAL, INC., a Delaware
corporation, MICHAEL BEELER, in his
individual capacity, MARK BORGHI, in his
individual capacity, RICHARD HANANIA,
in his individual capacity, JAMES D.
MILLER, in his individual capacity, JOSIAH
NEELEY, in his individual capacity, GRANT
SCHNEIDER, in his individual capacity, and
WES SHEPHERD, in his individual capacity,

Plaintiffs,

v.

COMMODITY FUTURES TRADING
COMMISSION,

Defendant.

Case No. 2022-cv-00909

DECLARATION OF JOHN PHILLIPS

I, John Phillips, do hereby declare under penalty of perjury, in accordance with 28 U.S.C. § 1746, that the following is true and correct, and that I am competent to testify to the matters stated herein:

1. My name is John Phillips. I am the Chief Executive Officer of both Aristotle International, Inc. (“Aristotle”), and PredictIt, Inc. (“PredictIt”).
2. I have personal knowledge of the facts stated herein.
3. We have a team of seven fully dedicated and 18 shared employees that service the PredictIt Market and ensure that the Market is running efficiently, reliably, and smoothly for our tens-of-thousands customers. Our team is now facing the task of complying with the August 4, 2022,

revocation decision of the Commodity Futures Trading Commission that orders the PredictIt Market to close and to liquidate all exiting contracts held by private traders on or before 11:59 pm on February 15, 2023. It is a significant understatement that determining how to liquidate these contracts and to stand up a system to do so cannot happen overnight. As explained below, Aristotle International, Inc., and PredictIt, Inc., will have to divert nearly all PredictIt employee resources and hundreds of thousands of dollars to establish a system for liquidating existing contracts starting no later than early December 2022.

4. Aristotle, PredictIt, and several traders and academics have asked the Court for a preliminary injunction that would push back this mandatory contract liquidation date while the Court considers our claims that the revocation decision was insufficiently explained and too arbitrary, in violation of the Administrative Procedure Act. Pushing back this date, even to 90 days after this Court decides the underlying case, will spare Aristotle and PredictIt the massive expense and diversion of resources required to stand up a system to liquidate these contracts before February 15, 2023.

5. With regard to that date, I am not aware of any reason why the CFTC decided contracts had to be liquidated by February 15, 2023, or why the CFTC cannot let the contracts that were trading on the date of its revocation decision continue trading until the elections or other political events they predict occur. The date itself seems to be chosen from thin air, and I have not seen a defense by the agency of why that date or another must be enforced. I believe the agency has virtually no interest in requiring the premature liquidation of PredictIt contracts, much less in requiring that such liquidation occur on February 15, 2023, rather than some later date that allows the Court to decide this matter before our companies start spending hundreds of thousands on compliance.

6. I want to explain further why we must begin in early December 2022 plunging significant resources into programming a system for compliance with the February 15, 2023, date. Every PredictIt market depends on a ‘trade engine’—a series of coded procedures—to execute trades between counterparties and to settle contracts when they are deemed closed by the site’s

Rules Committee. This engine or process has been designed so that contract closure requires a determination by the Committee that a contract shall either be paid out in full—in other words, at a \$1 value when its underlying predication has been deemed correct or liquidated with no compensation to the contract holder when the prediction has been deemed incorrect. That is a binary decision. There is no provision in the coding of the PredictIt trade engine for contracts to be settled for anything other than \$1 or \$0, as this is inimical to the trading logic on which the site operates.

7. When a contract has a linked outcome, such as the winner of a nomination or election, the engine requires the designation of one, and only one, contract to be paid out in full. All other associated margin-linked contracts are then settled at zero value. For instance, only one of the 17 candidates currently listed in the 2024 Republican Presidential nomination market can win the nomination; the other 16 contracts would settle at zero under existing market rules.

8. We are not currently equipped to settle markets in any way other than by the outcome of the election or the occurrence of a political event on which the contract turns. To settle contracts on an arbitrary date, like February 15, 2023, at a price other than \$1 or \$0 will require the selection, design, coding, testing, and execution of an entirely new settlement procedure. Implementation of such a process involves multiple steps of engaging staff with different expertise.

- First, PredictIt must choose a method by which to settle contracts prematurely, contrary to the established rules governing those contracts and without guidance from the CFTC. The method must be fair to traders but must also be designed to ensure that there are sufficient funds to settle all markets. Consideration of the most appropriate settlement method is already underway and key company staff are already being diverted from their normal duties for this purpose.
- Second, having selected a settlement method, the company's software development department and data analysts must develop calculations and processes by which to

assess the feasibility of these decisions in the site's existing coding environment. These processes are subject to review by management. Working backwards from a 4–5-week software development process (discussed below) this conceptual design process must begin in early December to meet the February 15 deadline. Contracts with linked outcomes (*i.e.* contracts pertaining to a multi-candidate election) pose a particular challenge since PredictIt employs a risk-calculation mechanism that reduces the collateral required for traders buying related contracts. In brief, the trade engine recognizes that a trader shorting multiple presidential candidates, for example, is guaranteed to “win” all but one of those positions, at minimum, since only one person can win the election. In the normal settlement of contracts, such linked short positions are unwound in a parallel fashion. But such “multiple-contract markets” typically have collective valuations near to but not exactly \$1 while they are active, leaving the possibility that settlement at live price will not fully restore funds to all traders or will generate a deficit in the clearing house.

- Third, after determination and review of a settlement method, PredictIt staff need to create a private, parallel instance of the live market in order to test procedures. Software developers need to write altogether new code for the trade engine to allow for the execution of the extraordinary settlement method. Once written, this code needs to be reviewed by quality assurance specialists, revised, and tested, through several iterations. This entire development process would consume four to five business weeks, at minimum. Because the CFTC's market shut down deadline of February 15 is not flexible and must be complied with on pain of massive threatened government penalties, we must allow more than the projected five weeks to allow for possible programming delays. Thus, programming must begin during the month of December.

9. The diversion of programmers for the extended period necessary to implement these changes will impose substantial direct and opportunity costs on the company. All of the employees assigned to PredictIt, comprising 20% of Aristotle's total workforce, will be affected by a partial or complete diversion of their work from other efforts to shut down tasks. Not only will we incur salary and overhead costs for that period of work, we will also delay or lose the projects those programmers would otherwise be completing. In total this diversion of effort threatens to trigger a two-to-three month delay in the launch of our next major business venture.

10. Finally, we have experienced a significant withdrawal of funds from the PredictIt market in the days since the mid-term election. The combination of the CFTC's prohibition on new markets and the impending shutdown order has left traders with few attractive investment choices in the market. As the CFTC's shutdown deadline approaches, liquidity in remaining markets is likely to decrease as more traders sell their positions and exit the market entirely. Increasingly illiquid markets increase the risk of extreme price movements unrelated to underlying political events and make it more difficult for remaining traders to exit their positions at fair prices.

I declare under the penalty of perjury that the foregoing is true and correct.

Executed on November 18, 2022

/s/ John Phillips

John Phillips