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## Insider Trading Suspect Developed Own AI To Fight Case

By **Chris Villani**

Law360 (December 14, 2022, 7:02 PM EST) -- Like many defendants in white collar criminal prosecution, Ryan Shapiro found himself staring at a mountain of discovery after he was charged with being part of an insider trading scheme.

The FBI turned over seven terabytes of data — so much that it would take more than 10,000 CDs or 5 million floppy disks to hold it all — and much of it was overlapping and unsearchable. Using one of the leading e-discovery platforms left the tech-savvy Shapiro, who had never before had a reason to use legal software, frustrated.

"We were scratching our heads saying, 'How are we going to manage this and how are we going to search for what we need to find?'" Shapiro told Law360 in an interview. "It is literally a needle in a haystack."

The founder of inmate money-transfer service JPay, Shapiro and his team went to work trying to see if they could come up with a better way to tackle the voluminous amounts of information in a fashion that would prove useful in a criminal defense.

His solution: artificial intelligence.

Shapiro called his creation HotShot. He described AI as an algorithm that he could train to take a huge mountain of data and quickly find and tag what he and his attorneys deemed to be important and relevant evidence.

"I am assuming attorneys would hire teams of people to search these millions of documents, and it would obviously take a long time," he said. "A computer can do it in an instant."

Shapiro says HotShot allowed him to quickly search and sort various communications, including text messages, emails, WhatsApp messages, and other documents, into a timeline format.

"The government is claiming, 'Hey, this is what happened,' and it's from years ago, and you're supposed to reconstruct that," Shapiro said. "This was the best way to do that. We could say that, on this date at 3 p.m., we sent this email, I received this SMS, I made this trade. And you start to see the flow of events, and you can see what happened in a clear and easy to use way."

Shapiro said he also designed the AI to identify and seek out speech tendencies, as opposed to searches that will only find certain words verbatim. His attorney, Martin G. Weinberg of Martin G. Weinberg PC, said that feature was particularly useful in piecing together a defense.

"If a person uses a set of words that the government infers are incriminating, the defense wants to detoxify that nexus by showing the same person used the same words or similar words in benign circumstances," Weinberg said.

Prosecutors claimed Shapiro and co-defendant Kris Bortnovsky used nonpublic information to trade shares of Designer Shoe Warehouse with the help of admitted stock tipper David Schottenstein, who pled guilty to a single count of securities fraud conspiracy.

According to the government, Schottenstein used inside information gleaned from a cousin to trade in advance of an August 2017 DSW earnings announcement, a December 2018 tender offer to acquire Aphria Inc. and a February 2018 announcement of a merger agreement between U.S.

grocery company Albertsons Companies Inc. and Rite Aid Corp.

Schottenstein then tipped off two close friends and additional defendants — Shapiro and Bortnovsky — who also traded ahead of the announcements, prosecutors alleged.

According to the charging documents, Shapiro made \$121,000 in illegal gains, while Bortnovsky reaped \$4 million from the scheme.

Shapiro maintained his innocence and he and Bortnovsky were slated for trial next year. But Schottenstein changed his mind about testifying and prosecutors were forced to **drop the case**. The government has left the door open to refile charges, and a representative for the U.S. attorney's office declined to say whether prosecutors plan to seek another indictment.

In a statement following the dismissal of the case, Weinberg said, "The silver lining of [Shapiro's] experience in the justice system is that he has developed with his team a search program — hotshot.dev — to rival the search programs used by top lawyers in preparing defenses to similar charges involving huge quantities of data."

The sudden reversal of fortunes left Shapiro rethinking what he could do with his creation.

"The plan was obviously to defend myself, that was entirely why we built it and built every feature," Shapiro said. "Now that it's built, and we had the surprise of the dismissal of my case, it left us saying, 'OK, we have this powerful software that other people in my situation can use.'"

Shapiro thinks HotShot can be a useful tool for lawyers, and he is looking for a handful of clients, particularly from boutique firms without the resources to comb through mountains of discovery data.

"The AI is why we can do it at such a minimal cost," Shapiro said. "The AI is the true value."

His first client, he noted with a chuckle, was Weinberg, his own lawyer.

"The challenge is that large cases are daunting in terms of today's discovery. It's not like the days when you got paper or even the days when emails defined the universe of discovery you would receive," Weinberg said. "Defendants need experienced trial lawyers, they don't just need a huge firm with their own IT department. The development of sophisticated search tools will be an equalizer."

Shapiro is accepting invitations to beta test the product on hotshot.dev and said he envisions working with more lawyers from smaller firms.

"I think I had the best legal team in the country," Shapiro said, citing Weinberg and Sean Burstyn of Burstyn Law in Florida. "That type of team, that small boutique type of firm can utilize software like this so effectively and greatly increase their chances of success."

--Editing by Kelly Duncan.