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Lawsuit Against GE Finance Unit Over Petters' Fraud Heads to Trial

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A lawsuit against General Electric Co.'s finance unit over its relationship with convicted businessman Thomas Petters, whose $40 billion empire collapsed in 2008, will move to trial as a result of a bankruptcy judge's ruling on Thursday.

In a 34-page ruling, Judge Paul Hyman refused to dismiss a federal lawsuit that accused the General Electric unit of conspiring to commit fraud by keeping quiet in 2000 when its employees allegedly discovered that Mr. Petters was operating a Ponzi scheme. The dispute will head to a jury in a trial that has yet to be scheduled.

The lawsuit was filed by two Florida hedge funds that lost about $650 million in the scheme. The investment entities filed for bankruptcy in 2009 and were taken over by Florida accountant Barry Mukamal, who has tried to collect money for their investors.

The GE unit has fought the lawsuit. Specifically, its lawyers argued that Mr. Mukamal didn't have the authority to pursue the suit because the power to do so remained with another trustee who took over Mr. Petters' bankrupt companies.

Judge Hyman rejected that argument in his ruling.

In 1998, a division of GE's finance arm, GE Capital, loaned money to a Petters-controlled business, according to court papers. The conglomerate has since sold off a lion's share of its finance business. When the lender allegedly discovered the fraud several months later, it struck a deal to be repaid and wrote a recommendation letter that Mr. Petters and his colleagues used to get more investors, according to the lawsuit filed in U.S. Bankruptcy Court in West Palm Beach, Fla.

> " joined the third-largest financial crime in American history," Michael Budwick, who represents Mr. Mukamal, told The Wall Street Journal Thursday. "We are eager to present misconduct to a jury this summer."

The GE unit's lawyers declined to comment on Judge Hyman's ruling. A GE representative also declined to comment.

Mr. Petters, whose business empire once encompassed Polaroid and Sun Country Airlines, told investors that their money would help his companies buy electronic goods, which they then resold to retail stores. That money, instead, was used to fund Petters' extravagant lifestyle and pay off other investors, creating the illusion of profits.

Leaders at the failed Florida hedge funds, Palm Beach Finance Partners LP and Palm Beach Finance II LP, said that Mr. Petters used his relationship with the established lender "as a strategic selling point," according to court papers. Mr. Mukamal sued in 2012, hoping to collect $650 million along with damages and unpaid interest.

In late 2008, U.S. government agencies exposed the 15-year scheme. Mr. Petters was later convicted of multiple counts of fraud and money laundering and is now serving a 50-year prison sentence at the Leavenworth federal prison in Kansas.

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