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Board Rules on Whistleblower Test Case

April 10, 2006 (Associated Press) -- A federal labor board, weighing a closely watched test case of the nation's new law to protect corporate whistleblowers, has issued a mixed ruling, ordering a tiny Virginia bank to reinstate a former executive but giving the bank time to appeal.



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The ruling prolongs a more than three-year battle of wills pitting Cardinal Bankshares Corp. - a holding company for the Bank of Floyd in southwest Virginia - against David Welch, the former chief financial officer fired by the company after he criticized its accounting practices.

In 2004, Welch became the first person to win protection as a whistleblower under the Sarbanes-Oxley Act, passed by Congress in 2002 after corporate scandals at Enron, WorldCom and other firms.

Cardinal has refused to take Welch back. For the moment, the ruling by the Labor Department's Administrative Review Board issued March 31 but not delivered until Friday, does not change that.

The board, noting that "Cardinal's arguments against Welch's motion have no merit," affirmed a 2005 judge's order that Welch be reinstated. But, citing unusual circumstances, it also ruled that Cardinal be given 10 days to appeal. A lawyer for the bank said Friday it intends to do so.

The ruling left lawyers for both Welch and the bank with as many questions as answers.

"It certainly runs counter to the regulations giving the impression of immediate reinstatement," said Bruce Shine, the lawyer representing Welch, of Bedford, Va. "The Act is certainly not working in terms of reinstatement and it goes to the age-old thing that if you've got enough money and enough lawyers you can keep people busy for years."

Shine, who had not yet seen the ruling Friday morning but had portions of it read to

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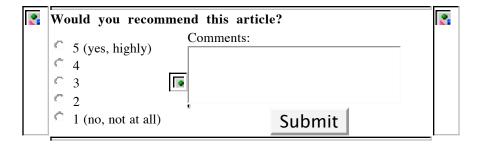
him by telephone, said the board appeared to be backing up Welch's case, while trying to make sure the bank was not tripped up by possibly unclear procedures under the new law.

A lawyer for the bank, Laura Effel, said the ruling focused only on procedures and technicalities without deciding who was right.

"I don't know that they've (the review board) made up their minds. I believe this is a technical decision and not a decision evaluating the merits of Mr. Welch's claim."

Effel said the bank plans to file an appeal with the board within the 10 days allotted.

- -- ADAM GELLER (AP Business Writer)
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