

DIRECT GENERAL CORPORATION

AUDIT COMMITTEE CHARTER

Purpose

The purpose of the Audit Committee is to assist the Board of Directors (the "Board") of Direct General Corporation (the "Company") in monitoring and overseeing (1) the integrity of the Company's financial statements and related disclosures, (2) the qualifications, independence, and performance of the Company's independent auditor, (3) the performance of the Company's internal auditing function, and (4) the Company's compliance with applicable legal and regulatory requirements and its business conduct policies.

Composition and Qualifications

The Audit Committee shall consist of at least three (3) members. The members of the Audit Committee shall be appointed and may be replaced by the Board.

The members of the Audit Committee shall meet the independence, experience, and other requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), the rules and regulations of the Securities and Exchange Commission (the "Commission"), and the rules of the Nasdaq Stock Market. At least one member of the Audit Committee shall be an "audit committee financial expert" as defined by the Commission.

Meetings

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee shall meet periodically with management, the independent auditor, and the head of the internal auditing department in separate executive sessions. The Audit Committee may request any officer or employee of the Company or the Company's independent auditor or outside counsel to attend any meeting of the Audit Committee or to meet with any of its members or advisors. The Audit Committee shall make regular reports of its meetings to the Board.

Authority and Responsibilities

The Audit Committee shall have the sole authority to appoint or replace the independent auditor. The independent auditor shall report directly to the Audit Committee. The Audit Committee shall be directly responsible for authorization of the compensation and oversight of the work of the independent auditor (including the resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

The Audit Committee shall preapprove all audit services (including, for example, comfort letters in connection with underwriting securities or statutory audits for insurance companies for purposes of State law) and permitted non-audit services (including the fees and terms thereof) to

be performed for the Company by its independent auditor, subject to the exception for *de minimis* non-audit services described in Section 10A(i)(1)(B) of the Exchange Act and Rule 2-01(c)(7)(i)(C) of Regulation S-X which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that the decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall have the authority, to the extent that it deems necessary or appropriate to carry out its duties, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for the payment of compensation to any accounting firm or independent legal counsel engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company and to any advisors employed by the Audit Committee.

In addition, the Audit Committee, to the extent that it deems necessary or appropriate, shall:

Oversight of Financial Statements and Related Disclosures

1. Prior to the filing of the Company's quarterly report on Form 10-Q, review and discuss with management and the independent auditor any required disclosure of non-audit services provided by the independent auditor, the Company's quarterly financial statements (including the results of the independent auditor's review of the financial statements) and the Company's disclosures in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the quarterly report.
2. Prior to the commencement of the audit of the Company's annual financial statements, review and discuss with management and the independent auditor the scope, schedule, and staffing of the audit.
3. Prior to the filing of the Company's annual report on Form 10-K, review and discuss with management and the independent auditor the Company's audited annual financial statements (including the results of the independent auditor's audit of the financial statements) and the Company's disclosures in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the annual report, and recommend to the Board whether the audited annual financial statements should be included in the annual report.
4. Discuss with the independent auditor all matters required to be communicated to the Audit Committee under generally accepted auditing standards, including the judgments of the independent auditor with respect to the quality, not just the acceptability, of the Company's accounting principles and underlying estimates in the financial statements.
5. Discuss with management and the independent auditor the significant financial reporting issues and judgments made in connection with the preparation of the Company's financial

statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls, and any special steps adopted in light of material internal control deficiencies or weaknesses.

6. Review and discuss with management and the independent auditor the reports from the independent auditor covering:
 - (a) all critical accounting policies and practices to be used;
 - (b) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor; and
 - (c) other material written communications between the independent auditor and management, including any engagement letter, independence letter, management representation letter, schedule of unadjusted audit differences, listing of adjustments and reclassifications not recorded, management letter, and report on observations and recommendations on internal controls.
7. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties with management encountered in performing the audit (such as restrictions on the scope of the independent auditor's activities or on its access to requested information) and any significant disagreements with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements.
8. Discuss with the independent auditor any material communications between the audit engagement team and the independent auditor's national office regarding auditing or accounting issues presented by the engagement.
9. Discuss with management the Company's disclosure controls and procedures and its internal controls and procedures for financial reporting, including the conclusions of the Company's chief executive officer and chief financial officer regarding the effectiveness of both sets of controls and procedures reached as part of their certification process for the quarterly report on Form 10-Q and the annual report on Form 10-K.
10. Discuss with management (a) any significant deficiencies and material weaknesses in the design or operation of the Company's internal controls and procedures for financial reporting and (b) any fraud (whether or not material) that involves management or other employees who have a significant role in the Company's internal controls and procedures for financial reporting, in each case as disclosed to the Audit Committee by the Company's

chief executive officer and chief financial officer as part of their certification process for the quarterly report on Form 10-Q and the annual report on Form 10-K.

11. Discuss with management in advance the Company's earnings press releases and earnings guidance. Discuss with management other financial information that the Company provides to securities analysts, credit rating agencies, and others. The Audit Committee need not discuss in advance each instance in which the Company provides such other financial information; instead, the discussion may take the form of a general discussion of the types of information to be disclosed and the types of presentations to be made.
12. Discuss with management the Company's disclosure or release of non-GAAP financial measures commonly referred to as "pro forma" or "adjusted" financial information. The Audit Committee need not discuss in advance each instance in which the Company discloses or releases non-GAAP financial measures; rather, the discussion may take the form of a general discussion of the Company's use of non-GAAP financial measures in its disclosures and releases.
13. Discuss with management and the independent auditor the effect of material off-balance sheet arrangements on the Company's financial statements.
14. Discuss with management and the independent auditor the Company's major financial risk exposures and the steps that management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies and guidelines.
15. Discuss with management and the independent auditor any accounting or other regulatory initiatives, correspondence with governmental or other regulatory agencies, and published reports that raise issues that may have a material effect on the Company's financial statements.

Oversight of Relationship with Independent Auditor

16. Obtain and review a report from the independent auditor regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review or peer review of the independent auditor, (c) any material issues raised by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the independent auditor, (d) any steps taken to deal with any issues described in the two preceding clauses, and (e) all relationships between the independent auditor and the Company.
17. Inquire as to the independence of the independent auditor; obtain from the independent auditor a formal written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard 1; actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or non-audit services that may impact the objectivity and independence of the

independent auditor; and otherwise take such actions as are appropriate to oversee the independence of the independent auditor.

18. Evaluate the qualifications, performance, and independence of the independent auditor, including considering whether the provision of permitted non-audit services is compatible with maintaining the auditor's independence. In making this evaluation, the Audit Committee shall take into account the opinions of management and the internal auditing staff. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
19. Review and evaluate the lead partner on the independent auditor's audit engagement team.
20. Ensure that the lead, concurring, and other audit partners are rotated off the independent auditor's audit engagement team as necessary to assure the independence of the independent auditor.
21. Recommend to the Board a policy for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company to assure the independence of the independent auditor.
22. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditor on a regular basis.

Oversight of Internal Auditing Function

23. Review and discuss with management, the independent auditor, and the head of the internal auditing department the scope of the internal audits and the personnel on the internal auditing staff.
24. Review the appointment and replacement of the head of the internal auditing department.
25. Review the reports to management prepared by the internal auditing staff and management's responses to such reports.

Oversight of Compliance with Legal Requirements and Business Conduct Policies

26. Discuss with the Company's General Counsel (a) any legal matter that may have a material effect on the Company's financial statements, (b) any instance of material non-compliance with applicable legal requirements, and (c) any instance of material non-compliance with the Company's business conduct policies.
27. Obtain from the independent auditor its assurance that Section 10A(b) of the Exchange Act has not been implicated.
28. Establish procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and

- (b) the confidential, anonymous submission by employees of the Company of their concerns regarding questionable accounting or auditing matters.
29. Review and approve all related party transactions, regardless of the dollar amount thereof, as contemplated in Item 404(a) of Regulation S-K.

Miscellaneous Responsibilities

30. Prepare the report required by the rules of the Commission to be included in the Company's annual proxy statement.
31. Investigate, with the assistance of any advisors that it deems appropriate, any matter brought to its attention that is within the scope of the Audit Committee's authority and responsibilities.
32. Review and reassess the adequacy of this Charter on an annual basis and recommend any proposed changes to the Board for approval.

Limitation of Audit Committee's Role

While the Audit Committee has the authority, powers, and responsibilities set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable legal, accounting, and other requirements. These are the responsibilities of the Company's management and the independent auditor.