

DIRECT GENERAL CORPORATION

CORPORATE GOVERNANCE GUIDELINES

Adopted: February 25, 2004

Last Revised: February 25, 2004

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(2/25/04)

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1. Director Qualifications

a. Independence and Characteristics. The Board of Directors of Direct General Corporation (the “Company”) will have a majority of directors who meet the criteria for independence required by the NASDAQ Stock Market. The Nominating and Corporate Governance Committee is responsible for reviewing with the Board of Directors, on an annual basis, the requisite skills and characteristics of new directors as well as the composition of the Board of Directors as a whole. This assessment will include members’ qualification as independent, as well as consideration of business diversity, skills, and experience in the context of the needs of the Board of Directors. Nominees for directorship will be selected by the Nominating and Corporate Governance Committee in accordance with the policies and principles in its charter. The invitation to join the Board of Directors should be extended by the Board of Directors itself or the Chairman of the Board.

b. Composition. Pursuant to Section 9 of the Company’s Charter and Section 3.2 of the Company’s bylaws, the Board of Directors shall consist of no fewer than three (3) or more than twelve (12) members, with the exact number within that range to be determined by the Board. The Company’s Charter provides further that the Board shall be divided into three classes (as nearly equal in number as possible) having staggered terms of three years each. The Board of Directors presently has 5 members. It is the sense of the Board of Directors that this size is currently appropriate. However, the Board of Directors may from time to time consider increasing the number of members in order to accommodate the availability of an outstanding candidate and/or to add an additional mix of business experience to the composition of the Board of Directors.

c. Service on Other Boards. No director may serve on more than three other public company boards. Directors should advise the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on another public company board.

d. Term Limits. The Board of Directors does not believe it should establish automatically imposed term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board of Directors, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board of Directors as a whole. As an alternative to term limits, the Nominating and Corporate Governance Committee will review each director’s continuation on the Board of Directors every

three years. This will give the Nominating and Corporate Governance Committee and the Board of Directors the opportunity to periodically evaluate the contribution of each director and allow each director the opportunity to conveniently confirm his or her desire to continue as a member of the Board of Directors.

2. Director Responsibilities

a. Exercise of Business Judgment. The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors. The directors shall also be entitled (i) to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, (ii) to the benefits of indemnification to the fullest extent permitted by law and the Company's charter, by-laws and any indemnification agreements, and (iii) to exculpation as provided by state law and the Company's charter and by-laws.

b. Attendance. Directors are expected to attend Board of Directors meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board of Directors' understanding of the business to be conducted at a Board of Directors or committee meeting should generally be distributed in writing to the directors before the meeting, and directors should review these materials in advance of the meeting.

c. Role of Chairman and Chief Executive Officer. The Board of Directors has no policy with respect to the separation of the offices of Chairman and the Chief Executive Officer. The Board of Directors believes that this issue is part of the succession planning process and that it is in the best interests of the Company for the Board of Directors to make a determination when it elects a new chief executive officer.

d. Board Agenda and Materials. The Chairman will cause an agenda to be established for each Board of Directors meeting. The agenda will be provided to the directors before the meeting and each director is free to suggest the inclusion of additional items on the agenda. Each director also is free to raise at any Board of Directors meeting subjects that are not on the agenda for that meeting. The Board of Directors will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board of Directors meeting each year.

e. Distribution of Materials. To help facilitate the efficient use of meeting time, information relevant to the Board of Director's understanding of matters to be discussed at an upcoming Board of Directors meeting should be distributed to all members in advance, whenever feasible and appropriate. In preparing this information, management should ensure that the materials distributed are as concise as possible, yet give directors sufficient information to make informed decisions. The Board of Directors acknowledges that certain items to be discussed at its meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to Board of Director meetings may not be appropriate

f. Executive Session of Independent Directors. The independent directors will meet in executive session at least quarterly. The director who presides at these meetings will be chosen by the independent directors, and his name will be disclosed in the annual proxy statement. It is anticipated, but not required, that such presiding director will be the same director who is chairman of the Company's Audit Committee.

g. Communication with Constituencies. The Board of Directors believes that the management speaks for the Company. Individual directors may, from time to time, be required to meet or otherwise communicate with various constituencies (i.e., regulators, investors, analysts and media) that are involved with the Company. But it is expected that directors would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management.

3. Board Committees

a. Types and Composition of Committees. The Board of Directors will have at all times an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. All of the members of these committees will be independent directors under the criteria established by the NASDAQ Stock Market. Committee members will be appointed by the Board of Directors upon recommendation of the Nominating and Corporate Governance Committee with consideration of the desires of individual directors. It is the sense of the Board of Directors that consideration should be given to rotating committee members periodically, but the Board of Directors does not feel that rotation should be mandated as a policy.

b. Committee Charters and Annual Review. Each of the Audit Committee and the Nominating and Corporate Governance Committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board of Directors. The Nominating and Corporate Governance Committee will be responsible for the annual review of its own performance and that of the other Board committees

c. Committee Meetings and Agenda. The Chairman of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will oversee the development of the committee's agenda for each meeting.

d. Engagement of Independent Advisors. The Board of Directors and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance. In the event any such independent advisor is hired, the name of the advisor will be disclosed to the Company's management as promptly as practicable.

e. Additional Committees. The Board of Directors may, from time to time, establish or maintain additional committees as necessary or appropriate as permitted under the Company's charter or bylaws.

4. Director Access to Officers and Employees; Non-Director Attendees at Board Meetings

Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer, Chief Financial Officer, or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, copy the Chief Executive Officer, Chief Financial Officer, and Secretary on any written communications between a director and an officer or employee of the Company. The Board of Directors welcomes regular attendance at each Board of Directors meeting of senior officers of the Company. If the Chief Executive Officer wishes to have additional Company personnel or outside advisor attendees on a regular basis, this suggestion should be brought to the Board of Directors for approval. The Board of Directors reserves its right at all times to exclude non-director attendees from all or any portion of any meeting.

5. Independent Directors and Committee Compensation

The form and amount of compensation payable to the independent members of the Board of Directors and committees thereof will be determined by the Compensation Committee. Directors who are also employees of the Company receive no additional compensation for serving on the Board of Directors. The Compensation Committee will conduct an annual review of the Company's Independent Director and Committee Compensation Policy to determine its reasonableness. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other in direct forms of compensation to) a director or an organization with which the director is affiliated.

6. Director Orientation and Continuing Education

All new directors will be given an appropriate opportunity to orient themselves to the Company's business and the Board of Directors' responsibilities prior to and within the first two months of the annual meeting at which new directors are elected. This orientation may include oral and/or written presentations by senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Policy on Business Conduct, its principal officers, and its internal and independent auditors.

7. Chief Executive Officer Evaluation and Management Succession

a. Chief Executive Officer Evaluation. The Compensation Committee will conduct an annual review of the Chief Executive Officer's performance. The Board of Directors will review the Compensation Committee's report in order to ensure that the Chief Executive Officer is providing the best and most effective leadership for the Company, considering a balance between long- and short-term goals.

b. Succession Planning. The Board of Directors is encouraged to consider succession planning at least annually. The Board of Directors will evaluate all potential successors to the Chief Executive Officer. The Chief Executive Officer should at all times make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals. Such succession planning discussions may be conducted on a confidential basis between the Board of Directors and the Chief Executive Officer.

8. Annual Self-Evaluation of Performance

The Board of Directors may conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee will accept comments from all directors and report annually to the Board with an assessment of the Board of Directors' performance. This report will be discussed by the full Board of Directors following the end of each fiscal year. The assessment will address the Board of Directors' leadership and contribution to the Company's achievement of its business and performance objectives and specifically focus on areas in which the Board of Directors itself, or senior management of the Company, believes that improvements could be made.

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