Paulena Partners, LLC, on behalf of itself and all others similarly situated, Plaintiff,

v.

DIRECT GENERAL CORP., WILLIAM ADAIR, JR., BARRY ELKINS, BRIAN MOORE, JACQUELINE ADAIR, TAMMY ADAIR, Defendants.

CLASS ACTION COMPLAINT

Plaintiff makes the following allegations, except as to allegations specifically pertaining to Plaintiff and Plaintiff's counsel, based upon the investigation undertaken by Plaintiff's counsel, which investigation included analysis of news articles and reports, public filings, press releases and other matters of public record.

NATURE OF THE COMPLAINT

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the publicly traded securities of Direct General Corp. (“Direct General” or the “Company”) during the period of August 11, 2003, through January 26, 2005, inclusive, (the “Class Period”) under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (“Exchange Act”), and the regulations promulgated thereunder by the SEC, including Rule 10b-5.
2. As discussed in more detail below, Defendants issued, or caused to be issued, false and misleading statements during the Class Period to artificially inflate the value of Direct General Stock. Defendants concealed from the investing public the negative effect a change in the Florida Personal Injury Protection scheme would have on the Company’s business operations. The Company also failed to properly reserve for its insurance losses as a result of the change in the Florida statute. While the stock’s value was just a few dollars from its Class Period high, and almost $15 from its current price, Defendants and other insiders sold over 3.3 million shares for net proceeds of $108 million. On January 26, 2005, the Company admitted that its current reserves were inadequate and disclosed for the first time the substantial impact the revised Florida PIP Statute was having on its operations.

**JURISDICTION AND VENUE**

3. This Court has jurisdiction over the subject matter of this action pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1331. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b) and 78t(a), and the rules and regulations promulgated thereunder by the SEC, including Rule 10b-5 (17 C.F.R. §240.10b-5).

4. Venue is proper in this district pursuant to Section 27 of the Exchange Act (28 U.S.C. §1391(b)). Many of the acts and transactions giving rise to the violations of law complained of herein, including the preparation and dissemination to the investing public of false and misleading information, occurred in this district. In addition, Direct General maintains its principal executive offices in this district.

5. In connection with the acts, conduct and other wrongs complained of herein, Defendants used the means and instrumentalities of interstate commerce, including the mails, telephone and the facilities of national securities exchanges.
THE PARTIES

A. Plaintiff

6. Plaintiff Paulena Partners, LLC purchased Direct General common stock during the Class Period, as evidenced by its certification attached hereto.

B. Corporate Defendant

7. Defendant Direct General’s principal offices are located at 1281 Murfreesboro Road, Nashville, TN 37217. The Company describes itself in its website as:

Who we are and how we operate.

Direct General Corporation, an insurance holding company, is a rapidly growing provider of nonstandard personal automobile insurance, premium finance and other insurance and non-insurance products and services, with a major presence in the southeastern part of the United States. Our company’s success is due, in large part, to the strength of our business model, which integrates insurance, premium finance and agency subsidiaries under one organization. Products and services are sold directly to the customer through more than 300 neighborhood sales offices staffed primarily by company salaried employees. Our conveniently located sales offices serve as a network for both product delivery and payment collection.

Our core business.

Our core business involves issuing nonstandard personal automobile insurance policies. These policies, which are generally issued for the minimum limits of coverage required by state laws, provide physical damage and liability coverage to drivers who cannot obtain insurance from standard carriers due to a variety of factors.

Other products and services we offer.

Through our premium finance subsidiary, premiums are financed on approximately 95% of the insurance policies that we sell. We also offer in our sales offices a variety of other insurance products designed to appeal to purchasers of our nonstandard personal automobile insurance policies. One of these other products is individual term life insurance offered through and underwritten by our wholly-owned life insurance subsidiary. We also sell insurance products that are underwritten by unaffiliated insurers. These
products include vehicle protection insurance, travel protection insurance and hospital indemnity insurance.

C. Individual Defendants

8. The Individual Defendants, at all times relevant to this action, served in the capacities listed below and received substantial compensation:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>William Adair, Jr.</td>
<td>Chairman of the Board, President and Chief Executive Officer (principal executive officer)</td>
</tr>
<tr>
<td>Barry Elkins</td>
<td>Senior Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Brian Moore</td>
<td>President - Direct Gen. Financial Services, Inc.</td>
</tr>
<tr>
<td>Jacqueline Adair</td>
<td>Chief Operating Officer, Executive Vice President, and Director</td>
</tr>
<tr>
<td>Tammy Adair</td>
<td>Executive Vice President</td>
</tr>
</tbody>
</table>

CLASS ACTION ALLEGATIONS

9. Plaintiff brings this action as a class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of a class (the “Class”) consisting of all persons who purchased the publicly traded securities of Direct General between August 11, 2003, and January 26, 2005, inclusive. Excluded from the Class are the Defendants herein, members of each Individual Defendant’s immediate family, any entity in which any Defendant has a controlling interest, and the legal affiliates, representatives, heirs, controlling persons, successors, and predecessors in interest or assigns of any such excluded party.

10. Because Direct General has millions of shares of common stock outstanding, and because the Company’s common stock was actively traded on the NASDAQ under the symbol “DRCT” throughout the Class Period, members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown at this time
and can only be determined by appropriate discovery, Plaintiff believes that Class members number at least in the thousands and that they are geographically dispersed.

11. Plaintiff’s claims are typical of the claims of the members of the Class, because Plaintiff and all of the Class members sustained damages arising out of Defendants’ wrongful conduct complained of herein.

12. Plaintiff will fairly and adequately protect the interests of the Class members and has retained counsel who are experienced and competent in class and securities litigation. Plaintiff has no interests that are contrary to or in conflict with the other members of the Class Plaintiff seeks to represent.

13. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy, since joinder of all members is impracticable. Furthermore, as the damages suffered by individual members of the Class may be relatively small, the expense and burden of individual litigation makes it impossible for the members of the Class individually to redress the wrongs suffered. There will be no difficulty in the management of this action as a class action.

14. Questions of law and fact common to the members of the Class predominate over any questions that may affect only individual members in that Defendants have acted on grounds generally applicable to the entire Class. Among the questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by Defendants’ acts as alleged herein;
b. whether the Company’s publicly disseminated releases and statements during the Class Period omitted and/or misrepresented material facts and whether Defendants breached any duty to convey material facts or to correct material facts previously disseminated;

c. whether Defendants participated in and pursued the fraudulent scheme or course of business complained of;

d. whether Defendants acted willfully, with knowledge or recklessly, in omitting and/or misrepresenting material facts;

e. whether the market prices of Direct General common stock during the Class Period were artificially inflated due to the material nondisclosures and/or misrepresentations complained of herein; and

f. whether the members of the Class have sustained damages and, if so, what is the appropriate measure of damages.

SUBSTANTIVE ALLEGATIONS

A. Pre-Class Period Events

15. On May 23, 2003, the Company filed a Form S-1 registration statement with the Securities and Exchange Commission (“SEC”) beginning the process which, after four amendments on June 30, July 21, August 1 and August 8, 2003 led to the SEC declaring the prospectus effective on August 11, 2003.

B. The Class Period Begins

16. The IPO began on August 11, 2003 and for the first time Company stock traded on the NASDAQ exchange under the symbol “DRCT.” The Company offered 7,972,276 shares of common stock, of which the Company sold 3,750,000 shares and selling shareholders sold 4,222,276 shares. The IPO resulted in net proceeds to the Company (after deducting issuance
costs) of approximately $71.6 million. Insiders pocketed approximately $62,152,545 in the IPO.

17. The prospectus provided the following discussion related to the Company’s risk exposure in the Florida market:

   In 2002, approximately 51% and 17% of our gross premiums written were generated from non-standard personal automobile insurance policies written in Florida and Tennessee, respectively. Our revenues and profitability are affected by the prevailing regulatory, economic, demographic, competitive and other conditions in these states. For example, from 1998 through 2001, our underwriting results in Florida were adversely affected by high levels of fraudulent claims and increased price competition. Changes in any of these conditions could make it more costly or difficult for us to conduct our business. Adverse regulatory developments in Florida or Tennessee, which could include reductions in the maximum rates permitted to be charged, restrictions on rate increases or fundamental changes to the design or implementation of the automobile insurance regulatory framework, could have a material adverse effect on our results of operations and financial condition.

18. The prospectus failed to inform prospective investors that on July 11, 2003, Governor Bush of Florida signed into law an amendment modifying the Personal Injury Protection “PIP” statute. As a result of the amendment, which became effective for all policies issued or renewed after October 1, 2003, the maximum PIP deductible was reduced from $2000 per occurrence to $1000, and the limit of coverage was increased to $10,000 plus the deductible as opposed to $10,000 minus the deductible.

19. At the time of the issuance of the Prospectus, the Company knew, or was reckless in not knowing, that the changes in the statutory scheme in its largest market, Florida, would have a negative impact on profitability and require an increase in reserves, yet the impact it would have was concealed from the investing public to insure a successful offering.
20. On March 4, 2004, the Company filed another Form S-1 registration statement with the SEC. According to the Prospectus which was declared effective by the SEC on March 23, 2004, Company insiders were going to sell 3,314,015 shares at $34.25 per share for net proceeds of approximately $108 million.

21. The SPO Prospectus contained the following discussion of the Company’s operations in Florida:

Our results improved during 2002 in virtually every state in which we operate, with the most significant improvement occurring in Florida, where our net loss ratio improved from approximately 98% in 2001 to 68% in 2002. On a direct basis, which excludes the impact of reinsurance including the commutation in 2002 and the Reliance Insurance Company write-off in 2001, the Florida loss ratio improved from approximately 92% in 2001 to 71% in 2002. This improvement resulted from the impact of rate increases, strengthened claims procedures and fraud detection practices, and improved underwriting standards. In addition, in response to the September 2000 grand jury report on the level of fraud in Florida’s mandatory PIP coverage, the Florida legislature enacted new laws in July and October 2001 designed to deter insurance fraud by delaying the availability of accident reports, requiring the registration of medical clinics, and improving companies’ rights to investigate suspicious claims.

22. Company insiders sold millions of shares to the investing public while concealing the effect the new law, which at this point had been in effect for almost 6 months, was having on their business. The Company continued to tout its prior results, all of which occurred under a different regulatory scheme than the Company now faced, without disclosing to investors that such results were now unattainable.

23. Throughout the class period, Defendants issued press releases and filed quarterly reports on Form 10-Q and annual reports on Form 10-K with the SEC omitting material information thereby rendering those statements false and misleading. This includes the
following Form 10-Q’s and 10-K’s which failed to disclose the impact of the modification of the Florida PIP scheme on the Company’s business operations:

a. Form 10-Q for the Period ending June 30, 2003; filed Sept. 23, 2003;
b. Form 10-Q for the Period ending Sept. 30, 2003; filed Nov. 13, 2003;
c. Form 10-K for the Period ending Dec. 31, 2003; filed March 9, 2004;
d. Form 10-Q for the Period ending March 31, 2004; filed May 14, 2004;
e. Form 10-Q for the Period ending June 30, 2004; filed August 10, 2004;

24. While Defendants continued to disseminate positive statements about the Company’s future, thereby artificially inflating its stock price, insiders sold millions of shares. During the Class period, insiders sold 3,952,172 shares of Direct General securities for proceeds of $114,465,530.

C. The Truth Emerges

25. On January 26, 2005, the Company issued a press release titled “Direct General Corporation Announces Impact of Reserve Analysis and Previews Fourth Quarter” announcing that:

[I]t has completed its analysis of loss reserves as of December 31, 2004, and has determined that it is necessary to strengthen its loss reserves for an estimated 2.1 point increase in the expected ultimate loss ratio for the 2004 accident year and to further increase its reserves for prior accident years by approximately $2.2 million. The total effect of the reserve strengthening is expected to result in a reduction in net income, after taxes, of approximately $7.1 million or $0.31 per diluted share for the fourth quarter of 2004.

26. The release also provided the following explanation for the increase in reserves:

The majority of the increase in reserves is attributable to the impact of a law change related to the personal injury protection coverage in Florida. Beginning with policies issued
on or after October 1, 2003, Florida mandated that the maximum personal injury protection coverage deductible be reduced from $2,000 per occurrence to $1,000 and that the limit be increased to $10,000 in excess of the deductible as opposed to $10,000 less the deductible. The Company has determined that it is prudent to increase its loss reserves as additional frequency and severity trend data have continued to emerge related to losses on these policies.

27. Commenting on the Company’s results, Defendant William Adair, said:

   We are obviously disappointed with the increase in reserves recorded during the fourth quarter. We have strived and will continue to take actions necessary to identify emerging trends and to react to new information as it becomes available...

28. Immediately following the Company’s release, Direct General’s stock plummeted, on usually high trading volume of over 9.3 million shares, from its closing price of $28.49 on January 26, 2005, to a closing price of $19.61 on January 27, 2005. Wachovia, one of many analysts to cover the Company, downgraded it to “under-perform” from “market perform.”

29. Wachovia analyst Lara Devieux stated, “It will be difficult for DRCT to maintain its premium multiple due to: (1) the potential for further reserve additions following last night’s preannounced strengthening; (2) a less favorable growth outlook; and (3) the risks to DRCT’s business in a more competitive market.”

30. The facade of growing strength in the Company’s operations, which artificially inflated the value of Direct General stock, occurred at just the perfect time for Defendants to unload millions of dollars’ worth of Direct General stock in the SPO.

**SCIENTER ALLEGATIONS**

31. As discussed above, Defendants deceived the investing public for their personal financial advantage, artificially inflating the price of Direct General stock so that they could engage in the following Class Period insider sales transactions:
<table>
<thead>
<tr>
<th>Defendant</th>
<th>No. of Shares</th>
<th>Price Range</th>
<th>Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jacqueline Adair</td>
<td>180,000</td>
<td>$29-35</td>
<td>$6,090,400.00</td>
</tr>
<tr>
<td>Tammy Adair</td>
<td>2,109,431</td>
<td>$29-35</td>
<td>$70,628,611.75</td>
</tr>
<tr>
<td>Barry Elkins</td>
<td>144,000</td>
<td>$34</td>
<td>$4,932,000.00</td>
</tr>
<tr>
<td>Brian Moore</td>
<td>15,000</td>
<td>$28-30</td>
<td>$433,650.00</td>
</tr>
<tr>
<td>Raymonf Oserhout</td>
<td>42,241</td>
<td>$29-35</td>
<td>$1,361,188.56</td>
</tr>
</tbody>
</table>

32. As highlighted in the chart above, Defendants sold Direct General stock in unusual amounts and of suspect timing because they knew that the market would respond negatively to Direct General’s misleading results.

33. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated by or in the name of the Company were materially false and misleading; knew or recklessly disregarded that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violators of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding Direct General and its business practices, their control over and/or receipt of Direct General's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Direct General, were active and culpable participants in the fraudulent scheme alleged herein. Defendants knew and/or
recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The ongoing fraudulent scheme described in this complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

34. The Individual Defendants engaged in such a scheme to inflate the price of Direct General securities in order to: (i) protect and enhance their executive positions and the substantial compensation and prestige they obtained thereby; (ii) enhance the value of their personal holdings of Direct General securities; (iii) reap enormous profits from the exercise of their stock options and the sale of Direct General securities; and (iv) allow Company insiders to complete a lucrative secondary offering.

STATUTORY SAFE HARBOR

35. The federal statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Further, none of the statements pleaded herein which were forward-looking statements were identified as “forward-looking statements” when made. Nor was it stated that actual results “could differ materially from those projected.” Nor were the forward-looking statements pleaded accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from the statements made therein. Defendants are liable for the forward-looking statements pleaded because, at the time each of those forward-looking statements was made, the speaker knew the forward-looking statement was false and the forward-looking statement was authorized and/or approved by an executive officer of Direct General who knew that those statements were false when made.
APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET DOCTRINE

36. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

a. Defendants made public misrepresentations or failed to disclose facts during the Class Period;

b. The omissions and misrepresentations were material;

c. Direct General securities traded in an efficient market;

d. The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company’s securities; and

e. Plaintiff and the other members of the Class purchased Direct General securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

37. At all relevant times, the market for Direct General securities was an efficient market for the following reasons, among others:

a. Direct General securities were listed and actively traded during the Class Period on the NASDAQ, an open, highly efficient and automated market.

b. As a regulated issuer, Direct General regularly made public filings, including its Forms 10-K, Forms 10-Q and related press releases, with the SEC.

c. Direct General was followed by analysts from major brokerages including: USB Piper Jaffray, Wachovia, UBS, and Ferris Baker Watts.

d. The reports of these analysts were redistributed to the brokerages’ sales force, their customers, and the public at large; and
e. Direct General regularly communicated with public investors via established market communication mechanisms, including the Company’s website, regular disseminations of press releases on the major news wire services, and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services.

38. As a result, the market for Direct General securities digested current information regarding the Company from the publicly available sources described above and reflected such information in the prices of Direct General’s securities. As would be expected where a security is traded in an efficient market, material news concerning Direct General’s business had an immediate effect on the market price of Direct General’s securities, as evidenced by the rapid decline in the market price in the immediate aftermath of Direct General’s corrective disclosures as described herein. Under these circumstances, all purchasers of Direct General’s securities during the Class Period suffered similar injury due to the fact that the price of Direct General securities was artificially inflated throughout the Class Period. At the times they purchased or otherwise acquired Direct General’s securities, Plaintiff and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not reasonably have discovered those facts. As a result, the presumption of reliance applies. Plaintiff will also rely, in part, upon the presumption of reliance established by a material omission.

COUNT I

FOR VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5 PROMULGAGED THEREUNDER AGAINST ALL DEFENDANTS.

39. Plaintiff repeats the allegations set forth in paragraphs 1 to 38 as though fully set forth herein. This claim is asserted against Direct General and the Individual Defendants.
40. During the Class Period, Defendants, carried out a plan, scheme and course of conduct which was intended to, and did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Direct General common stock; and (iii) cause Plaintiff and other members of the Class to purchase Direct General stock at artificially inflated prices during the Class Period. In furtherance of this unlawful scheme, plan and course of conduct, Defendants took the actions set forth herein.

41. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company’s common stock in an effort to maintain artificially high market prices for Direct General common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. Defendants are sued as primary participants in the wrongful and illegal conduct charged herein, and as controlling persons of Direct General, as alleged below.

42. In addition to the duties of full disclosure imposed on Defendants as a result of their affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, they had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. § 210.01 et seq.) and S-K (17 C.F.R. § 229.10 et seq.) and other SEC regulations, including accurate and truthful information with respect to the Company’s operations, financial condition and performance so that the market
prices of the Company’s publicly-traded securities would be based on truthful, complete and accurate information.

43. Defendants, individually and in concert, directly and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, business practices, performance, operations and future prospects of Direct General as specified herein. These Defendants employed devices, schemes and artifices to defraud, while in possession of material, adverse, non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Direct General’s value and performance and substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Direct General and its business, operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Direct General securities during the Class Period.

44. Individual Defendants’ primary liability, and controlling person liability, arises from the following facts: (i) Individual Defendants were all high-level executives and/or directors at the Company during the Class Period; (ii) each of these Defendants, by virtue of his responsibilities and activities as a senior executive officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company’s internal budgets, plans, projections and/or reports; (iii) the Individual Defendants enjoyed significant personal contact and familiarity with each other and were advised of and had access to other
members of the Company’s management team, internal reports, and other data and information about the Company’s financial condition and performance at all relevant times; and (iv) these Defendants were aware of the Company’s dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

45. Defendants had actual knowledge of the severe misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were readily available to them. Such Defendants’ material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Direct General’s operating condition, business practices and future business prospects from the investing public and supporting the artificially inflated price of its stock. As demonstrated by their overstatements and misstatements of the Company’s financial condition and performance throughout the Class Period, the Individual Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

46. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Direct General’s common stock was artificially inflated during the Class Period. Unaware of the fact that the market price of Direct General’s shares was artificially inflated, and relying (directly or indirectly) on Defendants’ false and misleading statements, or on the integrity of the market in which the securities are traded, and/or on the absence of material, adverse information known to or recklessly disregarded by Defendants (but not disclosed to the public) during the Class Period,
Plaintiff and the other members of the Class acquired Direct General common stock during the Class Period at artificially high prices and were damaged thereby.

47. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were unaware of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known of the true performance, business practices, future prospects and true value of Direct General, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have acquired their Direct General securities during the Class Period, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

48. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

49. As a direct and proximate result of Defendants’ wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their acquisition of the Company’s securities during the Class Period.

COUNT II

FOR VIOLATIONS OF SECTION 20(A) OF THE EXCHANGE ACT
AGAINST INDIVIDUAL DEFENDANTS

50. Plaintiff repeats the allegations set forth in paragraphs 1 to 49 above as if set forth fully herein. This claim is asserted against the Individual Defendants.

51. Individual Defendants were, and acted as, controlling persons of Direct General within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high level positions with the Company, participation in and/or awareness of the Company’s operations and/or intimate knowledge of the Company’s actual performance, these Defendants had the requisite power to directly or indirectly control or influence the specific corporate policy
which resulted in the dissemination of the various statements which Plaintiff contends are false and misleading. Individual Defendants were provided with or had unlimited access to the Company’s reports, press releases, public filings and other statements alleged by Plaintiff to be false and misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

52. In addition, Individual Defendants had direct involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

53. As set forth above, Individual Defendants violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their controlling positions, Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of these Defendants’ wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company’s securities during the Class Period.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff, on his own behalf and on behalf of the Class, prays for judgment as follows:

a. Declaring this action to be a class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of the Class defined herein;

b. Awarding Plaintiff and the other members of the Class damages in an amount which may be proven at trial, together with interest thereon;
c. Awarding Plaintiff and the members of the Class pre-judgment and post-judgment interest, as well as their reasonable attorneys’ and experts’ witness fees and other costs;

d. Ordering an accounting of Defendants’ insider trading proceeds;

e. Awarding preliminary and permanent injunctive relief in favor of plaintiffs and the Class against Defendants, including an accounting and the imposition of a constructive trust and/or an asset freeze on Defendants’ insider trading proceeds; and

f. Such other relief as this Court deems appropriate.

JURY DEMAND

Plaintiff demands a trial by jury.

Date: January 31, 2005

Respectfully submitted,

BRAMLETT LAW OFFICES

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