

RLI CORP. NYSE:RLI

RECENT PRICE **35.86** P/E RATIO **14.1** (Trailing: 15.5; Median: 14.0) RELATIVE P/E RATIO **0.77** DIV'D YLD **1.5%**

VALUE LINE

TIMELINESS 3 Lowered 10/24/03
SAFETY 2 Raised 6/28/02
TECHNICAL 3 Lowered 4/16/04
BETA .70 (1.00 = Market)

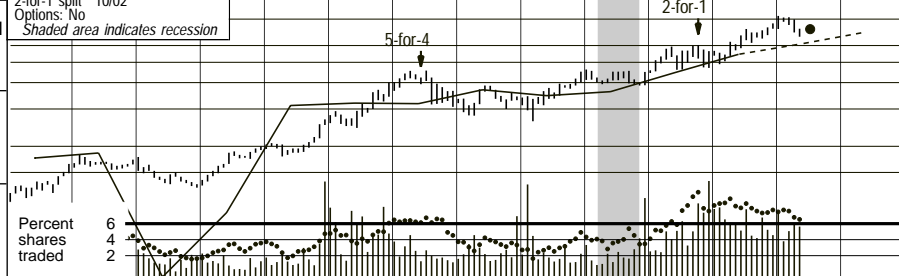
High: 9.2 8.9 10.0 13.4 20.1 22.8 19.4 22.5 23.1
 Low: 7.7 6.4 6.5 9.0 12.2 15.3 13.9 13.1 19.4

LEGENDS
 — 12.0 x Earnings p sh
 ... Relative Price Strength
 5-for-4 split 6/95
 5-for-4 split 6/98
 2-for-1 split 10/02
 Options: No
 Shaded area indicates recession

2007-09 PROJECTIONS
 Ann'l Total
 Price 55 Gain (+55%) Return 12%
 High 40 Low (+10%) 4%

Insider Decisions
 A S O N D J F M A
 to Buy 0 0 0 0 0 0 0 1 0
 Options 1 0 1 0 3 0 0 1 0
 to Sell 0 0 1 0 1 0 0 0 0

Institutional Decisions
 3Q2003 4Q2003 1Q2004
 to Buy 64 63 65
 to Sell 51 52 49
 Hld's(000) 20213 20450 19310



Target Price	Range	
2007	2008	2009
80		
60		
50		
40		
30		
25		
20		
15		
10		
7.5		

% TOT. RETURN 5/04	THIS STOCK	VL ARITH. INDEX
1 yr.	23.0	24.1
3 yr.	80.7	18.7
5 yr.	102.7	48.2

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
4.59	3.98	4.11	4.34	5.73	6.81	6.89	6.80	6.68	6.57	6.84	9.89	11.81	13.77	14.10	18.42	21.20	23.20	P/C Prem Earned p sh	28.60
.42	.54	.63	.68	.71	.91	.99	1.12	1.21	1.14	1.15	1.32	1.48	1.62	1.53	1.75	2.00	2.30	Investment Inc p sh	3.10
.74	.71	.17	1.88	.09	.61	d1.30	d.38	.70	.80	.81	.87	.62	.39	.63	1.48	1.70	1.95	Underwriting Inc p sh	3.00
.38	.45	.65	.71	.73	.77	d.27	.40	1.30	1.33	1.33	1.54	1.45	1.51	1.86	2.27	2.55	2.90	Earnings per sh ^A	4.15
.11	.12	.13	.15	.16	.18	.17	.20	.22	.22	.26	.27	.29	.31	.34	.38	.48	.52	Div'ds Decl'd per sh ^B	.64
3.43	3.97	4.37	5.25	5.97	7.53	6.37	8.08	10.23	12.35	14.13	14.84	16.66	16.92	18.50	22.02	24.25	26.60	Book Value per sh	36.40
18.69	17.68	17.68	17.68	18.00	18.49	20.35	19.63	19.55	21.59	20.81	19.75	19.61	19.83	24.68	25.17	25.00	25.00	Common Shs Outst'g ^C	25.00
85%	67%	82%	90%	110%	110%	113%	104%	101%	122%	138%	113%	107%	124%	141%	143%			Price to Book Value	135%
7.7	6.0	5.6	6.6	8.9	10.7	--	20.9	7.9	11.3	14.7	10.9	12.3	13.9	14.0	13.8			Avg Ann'l P/E Ratio	12.0
.64	.45	.42	.42	.54	.63	--	1.40	.49	.65	.76	.62	.80	.71	.76	.80			Relative P/E Ratio	.80
3.7%	4.6%	3.7%	3.1%	2.4%	2.1%	2.4%	2.4%	2.1%	1.5%	1.3%	1.6%	1.6%	1.5%	1.3%	1.2%			Avg Ann'l Div'd Yield	1.3%

CAPITAL STRUCTURE as of 3/31/04
 Total Debt \$147.6 mill. Due in 5 Yrs \$47.6 mill.
 (20% of Cap'l)
 Leases, Uncapitalized \$10.1 million
 Pension Assets-12/03 \$9.5 mill. Oblig. \$9.4 mill.
 Pfd Stock None
 Common Stock 25,190,854 shs. as of 4/23/04
 MARKET CAP: \$900 million (Small Cap)

140.2	133.5	130.7	141.9	142.3	195.3	231.6	273.0	348.0	463.6	530	580	P/C Premiums Earned	715
73.4%	63.6%	52.3%	43.2%	45.5%	49.4%	53.8%	57.1%	58.4%	60.2%	60.0%	60.0%	Loss to Prem Earned ^D	58.5%
43.5%	42.9%	36.8%	43.8%	39.0%	35.9%	36.4%	34.7%	18.6%	31.8%	32.0%	31.5%	Expense to Prem Writ ^D	31.0%
d16.9%	d6.5%	10.9%	13.0%	15.5%	14.7%	9.8%	8.2%	23.1%	8.1%	8.0%	8.5%	Underwriting Margin ^D	10.5%
--	3.9%	27.1%	27.3%	25.1%	26.9%	25.1%	26.3%	20.3%	23.4%	30.0%	30.0%	Income Tax Rate	30.0%
d5.0	8.0	25.7	30.2	28.2	31.5	28.7	30.2	38.2	58.6	65.0	75.0	Net Profit (\$mill)	105
5.7%	4.9%	4.8%	4.2%	3.8%	4.1%	4.1%	4.3%	4.0%	3.4%	3.5%	4.0%	Inv Inc/Total Inv	5.0%
752	815	845	912	1013	1170	1281	1391	1719	2134	2400	2600	Total Assets (\$mill)	3500
129.6	158.6	200.0	266.6	294.0	293.1	326.7	335.4	456.6	554.1	605	665	Shr. Equity (\$mill)	910
NMF	5.0%	12.8%	11.3%	9.6%	10.7%	8.8%	9.0%	8.4%	10.6%	10.5%	11.0%	Return on Shr. Equity ^E	11.5%
NMF	2.6%	10.7%	9.6%	7.8%	8.8%	7.0%	7.2%	6.9%	8.9%	8.5%	9.0%	Retained to Com Eq	9.5%
NMF	48%	17%	16%	18%	18%	20%	20%	17%	16%	19%	18%	All Div'ds to Net Prof	15%

BUSINESS: RLI through its subsidiaries, RLI Insurance and Mt. Hawley, writes multiple lines of insurance on an admitted basis in all 50 states. Also underwrites specialty property and casualty insurance on an admitted basis and excess and surplus business on a non-admitted basis. Underwrites earthquake premiums (in California). Other companies in the group include: Replacement Lens, Inc.; License Express Services, Inc. Has 560 employees. Gerald Stephens owns 6.3% of shs. outst.; Franklin Resources, 6.3%; State Street Bank, 9.9%. Directors & officers own 11.1% of shares out. (3/04 proxy). Pres. and CEO: Jonathan Michael. Chairman: Gerald D. Stephens. Add.: 9025 North Lindbergh Drive, Peoria, Illinois 61615. Tel.: 309-692-1000. Internet: www.rlicorp.com.

FINANCIAL POSITION 2002 2003 3/31/04 (\$MILL.)

Bonds	724.8	1024.3	1056.7
Stocks	227.3	276.0	279.2
Other	767.2	834.1	855.7
Total Assets	1719.3	2134.4	2191.6
Unearned Prems	350.8	367.6	363.2
Reserves	732.8	903.4	943.5
Other	179.2	309.2	308.8
Total Liab'ties	1262.8	1580.2	1615.5

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '01-'03 of change (per sh) to '07-'09

Premium Inc	10.5%	18.0%	11.0%
Invest Income	8.0%	7.0%	11.5%
Earnings	10.0%	7.5%	14.0%
Dividends	8.0%	8.0%	11.0%
Book Value	12.0%	9.5%	11.5%

RLI Corp. continues to generate year-over-year gains in quarterly share net. The company's solid bottom-line result in the March period was fueled by a very attractive 68.7% combined ratio in the property segment. Indeed, this implies that for every \$100 in premiums that RLI writes in this division it generates \$31.30 in pretax profit.

We look for a solid improvement in earnings through the end of next year. It appears that RLI will register strong growth in premiums earned over the next 18 months or so, despite some pressure on gross premiums written, mainly on the property side. Indeed, rates have been under pressure, falling 5%-10% in this segment, a reflection of increased competition and a lack of catastrophes, which has curtailed insurers' bargaining power on this front. However, rates continue to be rather strong at both the casualty and surety units. Although rates may indeed come under pressure in these areas later this year or in early 2005, increased policy retentions should help boost premiums earned. The surety segment has benefited from management's decision to

limit the company's exposure to contract surety bonds.

RLI appears to be in good shape for the 3- to 5-year pull, assuming decent conditions in the broader P/C insurance market. The company has posted an underwriting profit for the past eight years, which is a remarkable feat, considering catastrophes such as 9/11, and other, weather-related occurrences. Indeed, we look for RLI to continue to generate a positive combined ratio out to 2007-2009. Investment income should also receive a boost from improved cash flow and higher yields on invested assets.

These shares are ranked average for year-ahead relative price performance. However, this issue offers worthwhile long-term total-return potential, when adjusted for risk. We look for the board to continue to increase the company's dividend, which should interest income-oriented investors. A significant downturn in the P/C insurance market over that timeframe, however, would markedly alter our 3- to 5-year projections for the worse.

Cal-endar	NET PREMIUMS EARNED (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	63.3	66.6	69.8	73.3	273.0
2002	74.1	81.7	91.6	100.6	348.0
2003	109.1	113.6	119.0	121.9	463.6
2004	125.9	130	135	139.1	530
2005	135	140	150	155	580

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.36	.37	.40	.38	1.51
2002	.39	.45	.49	.53	1.86
2003	.55	.55	.57	.60	2.27
2004	.59	.64	.65	.67	2.55
2005	.67	.72	.74	.77	2.90

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2000	.07	.07	.075	.075	.29
2001	.075	.075	.08	.08	.31
2002	.08	.08	.09	.09	.34
2003	.09	.09	.10	.10	.38
2004	.11	.11	.13		

Alan G. House
 June 25, 2004

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	100
Earnings Predictability	90

(A) Dil. egs. Incl. cap. gains: '01, 13¢; '00, 9¢; '99, 15¢; '98, 5¢; '97, 10¢; '96, 3¢; '95, 1¢; Excludes cap. gains and losses beginning in 2002. Excludes extraordinary gain; '01, 8¢. Excludes nonrecurring charge of 11¢ in '02. Next egs. report due early Aug.
 (B) Div'ds. historically paid in mid-Jan., mid-April, mid-July, mid-Oct. ■ Div'd. reinvestment plan available. (C) In mill., adj. for stock splits and div'ds. (D) GAAP ratios '98 and beyond. (E) Based on year-end equity.

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