

CORNERSTONE BANCSHARES INC

FORM 8-K (Current report filing)

Filed 7/17/2006 For Period Ending 7/17/2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549



FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) July 17, 2006

CORNERSTONE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee

000-30497

62-1175427

*(State or other jurisdiction
of incorporation)*

*(Commission
File Number)*

*(I.R.S. Employer
Identification No.)*

5319 Highway 153, Chattanooga, Tennessee

37343

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (423) 385-3000

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On July 14, 2006, the Registrant issued a press release reporting earnings results for the fiscal quarter ended June 30, 2006.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Press release dated July 14, 2006 reporting earnings results for the fiscal quarter ended June 30, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CORNERSTONE BANCSHARES, INC.

(Registrant)

Date: July 17, 2006

By: \s\ Nathaniel F. Hughes

Nathaniel F. Hughes,
President and Chief Operating Officer

Cornerstone Bancshares, Inc. Announces 2nd Quarter 2006 Financial Results

HIXSON, Tenn., July 14 /PRNewswire-FirstCall/ -- Cornerstone Bancshares, Inc. (OTC Bulletin Board: CSBQ) today announced the following:

Cornerstone Bancshares, Inc. saw its 2nd quarter earnings increase to \$1.46 million or \$.45 a share and \$2.82 million year to date, an increase of 60.8% while book earnings per share increased to \$.87 versus \$.59, an increase of 47.5%. The earnings growth was the result of continued balance sheet growth and core deposit growth coupled with an increase in Cornerstone's net interest margin to 5.89%. Leading the growth in deposits were certificates of deposit which on average grew 33.7% over the same period in 2005. The Bank experienced continued exceptional loan growth as the loan portfolio finished the quarter with an average 2nd quarter balance of \$281 million, up 23.2% over the same period in 2005. The loan growth was concentrated in the business sector especially in asset based and commercial real estate lending as more customers choose customer service and went with a local organization that partnered with its customers. Asset growth followed in line with loan growth as the Bank averaged \$338 million in assets for the 2nd quarter of 2006 up from \$279 million during the 2nd quarter of 2005 an increase of 21.0%. The elevated net interest margin is due to increased number of participated loan servicing fees and a timing difference between the Bank's repricing of assets and liabilities.

Due to the above mentioned performance Cornerstone's Board announces an updated earnings projection for nominal EPS during 2006. EPS guidance has been increased from \$1.62 per share to \$1.75 per share.

The asset quality improved slightly and remained at the superior level during the first half of 2006 as non-performing assets as a percentage of average total loans decreased to 0.36%. The Bank had net charge offs of \$82 thousand during the second quarter and \$113 thousand year to date, while providing \$853 thousand to the loan loss allowance year to date. The large provision was created to fully fund the loan loss allowance for the loan growth realized from the first two quarters of 2006, and as a result Cornerstone was able to maintain a 1.52% allowance for possible loan losses compared to average loans.

Cornerstone Bancshares, Inc. 2nd quarter 2006 earnings of \$1.46 million represent a 60.4% increase over the 2nd quarter in 2005 earnings of \$912 thousand. Earnings per share for the 2nd quarter 2006 were \$0.45 compared to \$0.30 per share for the 2nd quarter of 2005.

Cornerstone Bancshares, Inc. is a one-bank holding company serving the Chattanooga, Tennessee MSA with 5 branches and \$340 million in assets specializing in business financial services.

CORNERSTONE BANCSHARES, INC. Selected Financial Information as of June 30, 2006 (in thousands)

EARNINGS SUMMARY	Three Months Ending June 30		% Change
	2006	2005	
Interest income	\$ 7,184	\$ 4,844	48.31%
Interest expense	2,438	1,427	70.85%
Net interest income	4,746	3,417	38.89%
Provision for loan loss	475	340	39.71%
Net interest income after provision	4,271	3,077	38.80%
Noninterest income	668	271	146.49%
Noninterest expense	2,541	1,857	36.83%
Pretax income	2,398	1,491	60.83%
Income taxes	935	579	61.49%
Net income	\$ 1,463	\$ 912	60.42%
Earnings per common share	\$ 0.45	\$ 0.30	50.00%
Weighted average common shares outstanding	3,241,674	3,028,037	

EARNINGS SUMMARY	Year-to-Date Ending June 30		% Change
	2006	2005	
Interest income	\$ 13,695	\$ 9,166	49.41%
Interest expense	4,594	2,563	79.24%
Net interest income	9,101	6,603	37.83%
Provision for loan loss	853	550	55.09%
Net interest income after provision	8,248	6,053	36.26%
Noninterest income	1,102	489	125.36%
Noninterest expense	4,784	3,677	30.11%
Pretax income	4,566	2,865	59.37%
Income taxes	1,748	1,113	57.05%
Net income	\$ 2,818	\$ 1,752	60.84%
Earnings per common share	\$ 0.87	\$ 0.59	47.46%
Weighted average common shares outstanding	3,228,545	2,988,038	

AVERAGE BALANCE SHEET SUMMARY	Three Months Ending June 30		% Change
	2006	2005	
Loans, net of unearned income	281,321	\$ 228,367	23.19%
Investment securities & Other	37,045	34,945	6.01%
Earning assets	318,366	263,312	20.91%
Total assets	338,399	279,585	21.04%
Noninterest bearing deposits	36,032	32,720	10.12%
Interest bearing transaction deposits	96,915	81,977	18.22%
Certificates of deposit	124,507	98,588	26.29%
Total deposits	257,454	213,285	20.71%
Other interest bearing liabilities	43,796	36,805	18.99%
Shareholder's equity	34,870	27,768	25.58%

AVERAGE BALANCE SHEET SUMMARY	Year-to-Date Ending June 30		% Change
	2006	2005	
Loans, net of unearned income	\$ 276,512	\$ 219,567	25.94%
Investment securities & Other	36,443	32,547	11.97%
Earning assets	312,955	252,114	24.13%
Total assets	333,511	268,102	24.40%
Noninterest bearing deposits	36,336	33,082	9.84%
Interest bearing transaction deposits	91,944	75,474	21.82%
Certificates of deposit	126,723	94,750	33.74%
Total deposits	255,003	203,306	25.43%
Other interest bearing liabilities	42,194	36,414	15.87%
Shareholder's equity	34,183	26,768	27.70%

SELECTED RATIOS	Three Months Ending June 30		Year-to-Date Ending June 30	
	2006	2005	2006	2005
Average equity to average assets	10.30%	9.93%	10.25%	9.98%
Average net loans to average total assets	83.13%	81.68%	82.91%	81.90%
Return on average assets	1.73%	1.30%	0.84%	0.65%
Return on average total equity	16.78%	13.14%	8.24%	6.55%
Actual Equity on June 30,	\$ 35,153,346	\$ 28,386,936		
Actual # shares outstanding on June 30,	3,243,453	3,051,334		
Book value per common share	\$ 10.84	\$ 9.30		

SOURCE Cornerstone Bancshares, Inc.

-0- 07/14/2006

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