

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): January 21, 2004

CORNERSTONE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee

(State of Incorporation)

000-30497

(Commission File No.)

62-1175427

(IRS Employer
Identification No.)

5319 Highway 153,
Chattanooga, Tennessee 37343
(Address of principal executive offices)

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

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

Item 9. Regulation FD Disclosure.

This information furnished under "Item 9. Regulation FD Disclosure" is provided under "Item 12. Results of Operation and Financial Condition" in accordance with SEC Release No. 33-8216.

On January 21, 2004, the Registrant issued a press release reporting earnings results for the fiscal quarter ending on December 31, 2003.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated January 21, 2004 reporting earnings results for the fiscal quarter ending on December 31, 2003.

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.

Date: January 21, 2004

By: \s\ Nathaniel F. Hughes

*Nathaniel F. Hughes,
President and Chief Financial Officer*

EXHIBIT INDEX

| <i>Exhibit No.</i> | <i>Description</i> |
|--------------------|---|
| ----- | ----- |
| 99.1 | Press release dated January 21, 2004 reporting earnings results for the fiscal quarter ending on December 31, 2003. |

Exhibit 99.1

Cornerstone Bancshares, Inc. Announces 4th Quarter 2003 Financial Results

HIXSON, Tenn., Jan. 21 /PRNewswire-FirstCall/ -- Cornerstone Bancshares, Inc. (OTC Bulletin Board: CSBQ) today announced the following:

Cornerstone Bancshares, Inc saw its 4th quarter earnings increase to \$488 thousand or \$.39 a share for the fourth quarter and \$1.882 million for 2004 or \$1.52 a share. This is over the previously announced and twice raised earnings estimate of \$1.50. The Company's Board of Directors and Management are very pleased with 2003's performance and are very optimistic toward 2004. The earnings estimate the Company is projecting is \$1.88 a share a 23.7% increase. To share this success with the Company's shareholders the Board of Directors declared a \$0.10 cash dividend to be paid January 26, 2004. This year successfully completes the Company's five year business plan that brought in new management in 1999 and now has seen earnings grow to a level above the Bank's peer comparisons. Average loan growth is at 31% over the same quarter in 2002 and continues to see loan growth in the business lending part of the loan portfolio and is looking for ways to further leverage this segment of the Chattanooga market. Three factors have made Cornerstone's earnings growth so explosive first, the Bank, due to loan origination fees, has a very high net interest margin 4.98% when compared to peers, second, earning assets as a percentage of total assets have grown to 94%, third, non interest income has increased 31% compared with 2002. All of which bode well for future earnings. On the horizon the Bank is in the final stages of completing our new Ooltewah Branch and expects the branch to open during the second quarter of 2004.

The asset quality remained at the superior level during 2003 as non-performing loans as a percentage of average total loans dropped to 0.09% while 30-day past due loans as a percentage of total loans dropped to 0.20%. The Bank net charge off's for the year were \$125 thousand while the Bank set aside a \$545 thousand provision to maintain its target 1.25% loan loss allowance and even with the outstanding growth in the Bank's loan portfolio, the Bank's loan loss allowance was 1.28%. The Bank believes strongly that the most conservative approach should be used with the loan loss allowance and should align with any risk associated with the loan portfolio.

Cornerstone Bancshares, Inc. 4th quarter 2003 earnings of \$488 thousand represents a 58.1% increase over the 4th quarter in 2002 earnings of \$309 thousand. Earnings per share for the 4th quarter 2003 was \$0.39 compared to \$0.25 per share for the 4th quarter of 2002.

Cornerstone Bancshares, Inc. is a one-bank holding company serving the Chattanooga, Tennessee MSA with 4 branches and \$200 million in assets specializing in business financial services.

CORNERSTONE BANCSHARES, INC.

Selected Financial Information
as of December 31, 2003
(in thousands)

| EARNINGS SUMMARY | Three Months Ending Dec 31 | | % |
|---|-------------------------------|-----------|---------|
| | 2003 | 2002 | Change |
| Interest income | \$2,979 | \$2,594 | 14.86% |
| Interest expense | 797 | 827 | -3.71% |
| Net interest income | 2,182 | 1,766 | 23.56% |
| Provision for loan loss | 135 | 263 | -48.75% |
| Net interest income after provision | 2,047 | 1,503 | 36.23% |
| Noninterest income | 308 | 236 | 30.32% |
| Noninterest expense | 1,550 | 1,261 | 22.88% |
| Pretax income | 805 | 478 | 68.54% |
| Income taxes | 317 | 169 | 87.57% |
| Net income | \$488 | \$309 | 58.12% |
| Earnings per common share | \$0.39 | \$0.25 | |
| Weighted average common shares outstanding | 1,243,167 | 1,233,167 | |

CORNERSTONE BANCSHARES, INC.
Selected Financial Information
as of December 31, 2003
(in thousands)

| EARNINGS SUMMARY | Year-to-Date Ending Dec 31 | | % |
|-------------------------------------|-------------------------------|---------|---------|
| | 2003 | 2002 | Change |
| Interest income | \$11,327 | \$9,702 | 16.74% |
| Interest expense | 3,211 | 3,309 | -2.96% |
| Net interest income | 8,116 | 6,394 | 26.94% |
| Provision for loan loss | 545 | 683 | -20.26% |
| Net interest income after provision | 7,571 | 5,710 | 32.58% |
| Noninterest income | 1,242 | 947 | 31.12% |
| Noninterest expense | 5,741 | 4,928 | 16.49% |
| Pretax income | 3,072 | 1,729 | 77.65% |
| Income taxes | 1,190 | 668 | 78.22% |

| | | | |
|--|-----------|-----------|--------|
| Net income | \$1,882 | \$1,061 | 77.30% |
| Earnings per common share | \$1.52 | \$0.86 | |
| Weighted average common shares outstanding | 1,239,417 | 1,233,167 | |

| AVERAGE BALANCE SHEET SUMMARY | Three Months Ending Dec 31 | | % |
|---------------------------------------|-------------------------------|-----------|--------|
| | 2003 | 2002 | |
| Loans, net of unearned income | \$153,455 | \$117,486 | 30.62% |
| Investment securities & Other | 25,381 | 23,875 | 6.31% |
| Earning assets | 178,836 | 141,360 | 26.51% |
| Total assets | 189,651 | 152,840 | 24.08% |
| Noninterest bearing deposits | 19,706 | 16,453 | 19.77% |
| Interest bearing transaction deposits | 50,644 | 39,182 | 29.25% |
| Certificates of deposit | 79,723 | 69,764 | 14.28% |
| Total deposits | 150,073 | 125,399 | 19.68% |
| Other interest bearing liabilities | 21,436 | 11,480 | 86.72% |
| Shareholder's equity | 16,805 | 15,057 | 11.61% |

| AVERAGE BALANCE SHEET SUMMARY | Year-to-Date Ending Dec 31 | | % |
|---------------------------------------|-------------------------------|-----------|---------|
| | 2003 | 2002 | |
| Loans, net of unearned income | \$141,585 | \$107,676 | 31.49% |
| Investment securities & Other | 25,668 | 24,182 | 6.15% |
| Earning assets | 167,253 | 131,858 | 26.84% |
| Total assets | 178,202 | 143,557 | 24.13% |
| Noninterest bearing deposits | 18,017 | 14,607 | 23.34% |
| Interest bearing transaction deposits | 47,766 | 38,663 | 23.54% |
| Certificates of deposit | 74,109 | 65,159 | 13.74% |
| Total deposits | 139,892 | 118,429 | 18.12% |
| Other interest bearing liabilities | 20,973 | 9,646 | 117.43% |
| Shareholder's equity | 16,113 | 14,649 | 9.99% |

| SELECTED RATIOS | Three Months Ending Dec 31 | | Year-to-Date Ending Dec 31 | |
|---|-------------------------------|---------|-------------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| Average equity to average assets | 8.86% | 9.85% | 9.04% | 10.20% |
| Average net loans to average total assets | 80.91% | 76.87% | 79.45% | 75.01% |
| Return on average assets | 1.03% | 0.81% | 1.06% | 0.74% |
| Return on average total equity | 11.62% | 8.21% | 11.68% | 7.25% |
| Book value per common share | \$13.52 | \$12.21 | | |

SOURCE Cornerstone Bancshares, Inc.

-0- 01/21/2004 /CONTACT: Frank Hughes, Investor Relations of Cornerstone Bancshares, Inc., +1-423-385-3009, or fhughes@cscb-chatt.com/ /Web site: <http://www.cscbank.com/>

(CSBQ)

CO: Cornerstone Bancshares, Inc.

ST: Tennessee

IN: FIN

SU: ERN