

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) April 27, 2011

CORNERSTONE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction
of incorporation)

000-30497

(Commission File Number)

62-1175427

(IRS Employer
Identification No.)

**835 Georgia Avenue, Chattanooga,
Tennessee**

(Address of principal executive offices)

37343

(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 April 27, 2011, the Registrant issued a press release reporting earnings results for the fiscal quarter ended March 31, 2011.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated April 27, 2011 reporting earnings results for the fiscal quarter ended March 31, 2011.

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: May 9, 2011

By: /s/ Nathaniel F. Hughes

Nathaniel F. Hughes,

President

Cornerstone Bancshares, Inc. Announces 1st Quarter 2011 Financial Results

CHATTANOOGA, Tenn.--(BUSINESS WIRE)--April 27, 2011--Cornerstone Bancshares, Inc. (OTC Bulletin Board: CSBQ) today announced the following:

Cornerstone Bancshares, Inc. ("Cornerstone"), parent company of Cornerstone Community Bank ("Bank"), reported positive net income for the first quarter 2011 of approximately \$252,000. This represents a decrease of 26.7 percent compared to the first quarter of 2010's net income of approximately \$344,000. Cornerstone saw a 58.4 percent decrease in its non accrual loans compared to December 31, 2010, as the Bank was able to take control of troubled properties and moved them to the final phase in the collection process. During the first quarter of 2011, Cornerstone added \$15,000 to the loan loss provision as the Bank believes it has sufficient funding to handle loan impairments, which represents a decrease of 98.5 percent compared to the first quarter of 2010.

Total assets decreased 20.4 percent to \$447.5 million at March 31, 2011, down \$114.6 million from \$562.1 million at March 31, 2010. Loans totaled \$273.7 million as of March 31, 2011, compared with \$325.9 million as of March 31, 2010, a decrease of 16.0 percent. The Bank decreased its security portfolio to \$100.9 million as of March 31, 2011, from \$150.6 million as of March 31, 2010, a decrease of 33.0 percent. These are planned reductions to take the Bank to a \$400-\$425 million level. Once at this level, management believes the Bank will be able to stabilize with an appropriate level of capital and an asset mix to return to its normal peer level of profitability.

"We continue to reshape our balance sheet and move problem loans through the collection cycle. We have seen an improvement in the real estate market in Chattanooga and believe that the speed of disposal of properties will accelerate during 2011 as properties either sell or are rented to produce noninterest income," said Cornerstone President Frank Hughes. "While we still have some improvement to make, I'm pleased with the progress we've made and the tremendous strides we've taken toward a continued trend in positive net earnings."

Cornerstone's allowance for loan losses was \$7.9 million or 2.9 percent of total loans as of March 31, 2011, compared to \$6.8 million or 2.1 percent of total loans as of March 31, 2010. Nonperforming assets were \$27.8 million or 6.2 percent of total assets at March 31, 2011, compared to \$19.8 million or 3.5 percent at March 31, 2010. Net charge-offs were \$1.2 million for the first quarter of 2011, compared to \$160,000 for the first quarter of 2010. Cornerstone has seen a leveling off of loan deterioration in the Chattanooga, Tennessee MSA and expects a decrease in non-performing assets during 2011.

"Our Directors and Management team remain fully committed and engaged to keep Cornerstone tracking in the right direction," said Cornerstone Chairman Miller Welborn. "Our goal is to provide the best products, service and value to each of our Bank customers, and a positive return on investment for all of our Cornerstone stakeholders."

Cornerstone is a single-bank holding company, with \$448 million in assets, serving the Chattanooga, Tennessee MSA, with five branches throughout Chattanooga, Tennessee and one loan production office in Dalton, Georgia. Locally owned and locally operated, Cornerstone specializes in providing a comprehensive range of customized financial solutions for businesses and individuals.

Certain of the statements made in this release may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements, including statements regarding the intent, belief or current expectations of Cornerstone and its management regarding the company's strategic directions, prospects and future results, involve certain risks and uncertainties. Certain factors may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which Cornerstone operates, governmental regulations, the company's competitive environment, cyclical and seasonal fluctuations in its operating results, and other risks discussed in Cornerstone's Form 10-K and other filings with the Securities and Exchange Commission.

Cornerstone Bancshares, Inc. and Subsidiary
 First Quarter Financial Highlights
 March 31, 2011 and 2010
 (Unaudited)

<i>(Amounts in thousands, except per common share data)</i>	2011	2010	% Change
Balance Sheet Data at March 31			
Total assets	\$ 447,540	\$ 562,065	(20.4)
Interest-earning assets	420,104	533,523	(21.3)
Loans	273,750	325,948	(16.0)
Foreclosed assets	20,464	8,240	148.3
Deposits	337,487	429,198	(21.4)
Other interest-bearing liabilities	81,270	102,256	(20.5)
Shareholders' equity	27,290	28,583	(4.5)
Loan to deposit ratio	81.11%	75.94%	6.8
Tier 1 Leverage Ratio (Bank)	5.75%	5.64%	2.0
Total Risk-Based Capital Ratio (Bank)	10.06%	10.01%	0.5
Outstanding common shares (000s)	6,500	6,500	-
Book value per common share	\$ 3.65	\$ 4.40	(17.0)
Tangible book value per common share	\$ 3.64	\$ 4.00	(9.0)
Market value per common share as of March 31	\$ 1.50	\$ 2.70	(44.4)
Loan Quality Data			
Nonaccruing loans	5,671	8,469	(33.0)
Loans past due 90 days – accruing	-	-	-
Net charge-offs YTD	1,233	160	670.8
Allowance for loan losses	7,914	6,760	17.1
Allowance for loan losses to total loans	2.89%	2.07%	
Nonperforming assets to total assets	5.84%	2.97%	
Performance Data for the Year			
Net income available to common stockholders	\$ 181	\$ 344	47.5
Return on average assets	0.17%	0.26%	
Return on average equity	2.71%	4.80%	
Net interest margin	3.44%	3.64%	
Per common share data:			
Net income – basic	\$ 0.03	\$ 0.05	
Net income – diluted	\$ 0.03	\$ 0.05	
Common dividends paid	\$ -	\$ -	
Preferred dividends paid	\$ -	\$ -	
Average shares (000s):			
Basic common stock	6,500	6,500	
Diluted common stock	6,500	6,500	
Preferred stock	149	-	

Cornerstone Bancshares, Inc. and Subsidiary
Loan Loss Allowance and Asset Quality Review

	2011	2010			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<i>(Amounts in thousands)</i>					
Allowance for loan losses					
Balance at beginning of period	\$ 9,132	\$ 6,271	\$ 6,967	\$ 6,760	\$ 5,905
Provision for loan losses	15	4,130	681	1,465	1,015
Net charge-offs	(1,233)	\$ (1,269)	\$ (1,377)	\$ (1,258)	\$ (160)
Balance at end of period	\$ 7,914	\$ 9,132	\$ 6,271	\$ 6,967	\$ 6,760
As a % of loans	2.89%	3.20%	2.15%	2.19%	2.07%
As a % of nonperforming loans	108.10%	63.06%	38.97%	36.81%	61.21%
As a % of nonperforming assets	28.48%	33.46%	21.25%	23.91%	39.21%
Net charge-offs as a % of loans (a)	1.80%	1.78%	1.89%	1.58%	0.20%
Risk element assets					
Nonaccruing loans	\$ 5,671	\$ 13,633	\$ 10,237	\$ 13,030	\$ 8,468
Accruing troubled debt restructured	1,650	848	5,853	5,895	2,576
Loans past due 90 days – accruing	\$ -	-	-	-	-
Total nonperforming loans	7,321	14,481	16,090	18,925	11,044
Reposessed assets	-	150	285	350	473
Other real estate owned (b)(c)(d)	20,464	12,659	13,142	9,862	8,241
Total nonperforming assets	\$ 27,785	\$ 27,290	\$ 29,517	\$ 29,137	\$ 19,758
Loans past due 30-89 days	\$ 8,434	\$ 2,306	\$ 1,500	\$ 6,655	\$ 6,669
Nonperforming loans as a % of loans	2.67%	5.08%	5.51%	5.94%	3.39%
Nonperforming assets as a % of loans and other real estate owned	9.44%	9.16%	9.67%	8.87%	5.91%
Total loans	273,750	285,247	292,046	318,796	325,948
(a) Annualized					
(b) Properties sold since quarter-end	\$ 1,227				
(c) Properties rented	\$ 868				
(d) Properties under contract to sell	\$ 8,065				

Cornerstone Bancshares Inc. and Subsidiary
Net Interest Margin Analysis
Taxable Equivalent Basis

Three months ended
March 31

(Amounts in thousands)

Assets	2011			2010		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Earning assets:						
Loans, net of unearned income	\$ 284,297	\$ 4,639	6.62%	\$ 330,024	\$ 5,948	7.31%
Investment securities	109,844	568	2.41%	134,834	1,129	3.62%
Other earning assets	24,122	11	0.18%	45,528	24	0.21%
Total earning assets	418,263	<u>\$ 5,218</u>	5.14%	510,386	<u>\$ 7,101</u>	5.70%
Allowance for loan losses	(9,071)			(5,993)		
Cash and other assets	28,629			29,919		
TOTAL ASSETS	\$ 437,821			\$ 534,312		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing demand deposits	\$ 27,590	\$ 21	0.31%	\$ 27,908	\$ 30	0.44%
Savings deposits	9,499	12	0.51%	8,727	11	0.51%
MMDA's	24,437	60	1.00%	23,718	57	0.97%
Time deposits	244,021	1,052	1.75%	307,034	1,684	2.22%
Federal funds purchased and securities sold under agreements to repurchase	22,625	31	0.56 %	23,637	35	0.61%
Other borrowings	54,356	580	4.33%	72,306	779	4.37%
Total interest bearing liabilities	382,528	<u>1,756</u>	1.86%	463,330	<u>2,596</u>	2.27%
Net interest spread		<u>\$ 3,462</u>	3.28%		<u>\$ 4,505</u>	3.43%
Noninterest bearing demand deposits	28,964			48,211		
Accrued expenses and other liabilities	(354)			(5,897)		
Shareholders' equity	26,683			28,668		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$437,821			\$ 534,312		
Net yield on earning assets			<u>3.44%</u>			<u>3.64%</u>
Taxable equivalent adjustment:						
Loans		-			-	
Investment securities		85			74	
Total adjustment		<u>85</u>			<u>74</u>	

Cornerstone Bancshares Inc. and Subsidiary
Quarterly Earnings Summary

	(Unaudited)	(Unaudited)				Q1-11 / Q1-10 % Chg
	2011 First Quarter	2010 Fourth Quarter	2010 Third Quarter	2010 Second Quarter	2010 First Quarter	
<i>(Amounts in thousands)</i>						
Interest Income						
Loans, including fees	\$ 4,639	\$ 4,896	\$ 5,160	\$ 5,494	\$ 5,948	-22.0 %
Investment securities and interest bearing deposits	568	534	754	1,216	1,129	-49.7 %
Other earning assets	11	15	19	22	24	-54.2 %
Total interest income	5,218	5,445	5,933	6,732	7,101	-26.5 %
Interest expense						
Deposits	1,145	1,239	1,478	1,719	1,782	-35.8 %
Short-term borrowings	31	28	32	32	35	-11.4 %
FHLB advances and other borrowings	580	651	666	760	779	-25.6 %
Total interest expense	1,756	1,918	2,176	2,511	2,596	-32.4 %
Net interest income	3,462	3,527	3,757	4,221	4,505	-23.1 %
Provision for loan losses	15	4,130	681	1,465	1,015	-98.5 %
Net interest income after the provision for loan losses	3,447	(603)	3,076	2,756	3,490	-1.2 %
Noninterest income						
Customer service fees	215	280	309	342	342	-37.0 %
Other noninterest income	20	63	34	29	31	-34.6 %
Gain / (loss) on sale of loans and other assets	34	(681)	544	439	(53)	-164.2 %
Total noninterest income	269	(338)	887	810	320	-15.9 %
Noninterest expense						
Salaries and employee benefits	1,542	1,515	1,525	1,521	1,633	-5.6 %
Net occupancy and equipment	406	380	397	369	355	14.5 %
Depository insurance	322	350	386	237	247	30.4 %
Goodwill impairment	-	2,541	-	-	-	-
Other operating expense	1,145	1,255	1,372	1,476	1,081	5.9 %
Total noninterest expense	3,415	6,041	3,680	3,603	3,316	3.0 %
Income (loss) before income taxes	301	(6,982)	283	(37)	494	-39.1 %
Income tax expense (benefit)	49	(1,699)	69	(55)	150	-67.6 %
Net income (loss)	252	(5,283)	214	18	344	-26.7 %
Preferred stock dividend requirements	72	34	-	-	-	
Net income (loss) available to common shareholders	\$ 180	\$ (5,317)	\$ 214	\$ 18	\$ 344	
Net income (loss) per common share:						
Basic	\$ 0.03	\$ (0.82)	\$ 0.03	\$ 0.00	\$ 0.05	NM
Diluted	\$ 0.03	\$ (0.82)	\$ 0.03	\$ 0.00	\$ 0.05	NM
Average basic shares (000s)	6,500	6,500	6,500	6,500	6,500	NM
Average diluted shares (000s)	6,500	6,500	6,500	6,500	6,500	NM
Performance Ratios						
Return on average equity	3.78%	-67.90%	2.81%	0.25%	4.80%	NM
Return on average assets	0.23%	-4.66%	0.17%	0.01%	0.26%	NM
Net interest margin	3.44%	3.36%	3.36%	3.41%	3.64%	NM
Average equity	26,683	31,120	30,355	29,105	28,668	
Average assets	437,821	453,665	488,771	529,655	534,312	
Average interest-earning assets	418,263	425,789	458,213	506,631	510,386	

NM=Not Material

Cornerstone Bancshares, Inc. and Subsidiary
 Loan Stratification

<i>(Amounts in thousands)</i>	2011 First Quarter	% of Total	2010 First Quarter	% of Total	% Dollar Change
Non-residential real estate					
Owner occupied	\$ 64,492	23.6	\$ 76,016	23.3	(15.2)
Non-owner occupied	59,336	21.7	74,690	22.9	(20.6)
Multi-family real estate	11,781	4.3	13,172	4.0	(10.6)
1-4 family construction	3,827	1.4	6,318	1.9	(39.4)
Commercial land and lot development	19,718	7.2	33,121	10.3	(40.5)
Total non-residential real estate	159,154	58.2	203,317	62.4	(21.7)
Residential real estate					
First Mortgage - 1-4 family	42,835	15.6	43,074	13.2	(0.6)
Second Mortgage - 1-4 family	4,639	1.7	5,277	1.6	(12.1)
Home equity lines	11,005	4.0	10,073	3.2	9.3
Total residential real estate	58,479	21.3	58,424	18.0	0.1
Total real estate loans	217,633	79.5	261,741	80.4	(16.9)
Commercial	44,592	16.3	54,814	16.8	(18.6)
Agricultural & other	8,449	3.1	6,013	1.8	40.5
Consumer	3,076	1.1	3,380	1.0	(9.0)
Total loans, net of unearned fees	\$ 273,750	100.0	\$ 325,948	100.1	(16.0)

Cornerstone Bancshares, Inc. and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity - Unaudited
For the three months ended March 31, 2011

	<u>Comprehensive Income</u>	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Deficit</u>	<u>Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
BALANCE, December 31, 2010		\$2,727,424	\$6,500,396	\$21,237,298	\$(4,317,130)	\$ (328,835)	\$ 25,819,153
Employee compensation stock option expense		-	-	19,785	-	-	19,785
Issuance of Series A Convertible Preferred Stock		851,661	-	-	-	-	851,661
Comprehensive income:							
Net income	\$ 252,275	-	-	-	252,275	-	252,275
Other comprehensive income, net of tax:							
Unrealized holding gains on securities available for sale, net of reclassification adjustment	346,702	-	-	-	-	346,702	346,702
Total comprehensive income	<u>\$ 598,977</u>						
BALANCE, March 31, 2011		<u>\$3,579,085</u>	<u>\$6,500,396</u>	<u>\$21,257,083</u>	<u>\$(4,064,855)</u>	<u>\$ 17,867</u>	<u>\$ 27,289,576</u>

Cornerstone Bancshares, Inc. and Subsidiary
Consolidated Statements of Operations

	Unaudited Three months ended March 31,	
	2011	2010
INTEREST INCOME		
Loans, including fees	\$ 4,638,805	\$ 5,948,246
Investment securities	568,672	1,129,279
Federal funds sold & other earning assets	11,003	23,661
Total interest income	<u>5,218,480</u>	<u>7,101,186</u>
INTEREST EXPENSE		
Time deposits	1,052,449	1,684,027
Other deposits	92,612	97,723
Federal funds purchased and securities sold under agreements to repurchase	31,003	35,415
FHLB advances and other borrowings	579,658	779,197
Total interest expense	<u>1,755,722</u>	<u>2,596,362</u>
Net interest income before provision for loan losses	3,462,758	4,504,824
Provision for loan losses	15,000	1,015,000
Net interest income after the provision for loan losses	<u>3,447,758</u>	<u>3,489,824</u>
NONINTEREST INCOME		
Customer service fee	215,451	341,914
Other noninterest income	20,279	20,611
Net gains from sale of loans and other assets	34,027	41,137
Total noninterest income	<u>269,757</u>	<u>403,662</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	1,542,702	1,633,344
Net occupancy and equipment expense	406,334	355,183
Depository insurance	322,655	269,740
Foreclosed assets, net	361,570	196,173
Other operating expense	783,354	945,558
Total noninterest expense	<u>3,416,615</u>	<u>3,399,998</u>
Income before provision for income taxes	300,900	493,488
Provision for income taxes	48,625	149,701
Net income	252,275	343,787
Preferred stock dividend requirement	71,588	-
Net income available to common shareholders	<u>\$ 180,687</u>	<u>\$ 343,787</u>
EARNINGS PER COMMON SHARE		
Basic net income per common share	\$ 0.03	\$ 0.05
Diluted net income per common share	\$ 0.03	\$ 0.05
DIVIDENDS DECLARED PER COMMON SHARE		
	\$ -	\$ -

Cornerstone Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

ASSETS	Unaudited March 31, 2011	Unaudited December 31, 2010
Cash and due from banks	\$ 1,508,964	\$ 1,490,030
Interest-bearing deposits at other financial institutions	39,921,667	21,491,922
Securities available for sale	100,788,157	108,250,434
Securities held to maturity (fair value approximates of \$94,528 and \$98,388 at March 31, 2011 and December 31, 2010, respectively)	92,064	95,702
Federal Home Loan Bank stock, at cost	2,322,900	2,322,900
Loans, net of allowance for loan losses of \$7,913,933 at March 31, 2011 and \$9,132,171 at December 31, 2010	265,835,680	276,114,617
Bank premises and equipment, net	6,142,044	8,047,370
Accrued interest receivable	1,430,772	1,326,480
Foreclosed assets	20,463,835	12,808,838
Other assets	9,033,919	9,551,121
Total Assets	<u>\$447,540,002</u>	<u>\$441,499,414</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand deposits	\$ 33,529,178	\$ 28,980,043
Interest-bearing demand deposits	27,945,913	24,834,214
Savings deposits and money market accounts	34,775,755	34,041,672
Time deposits	241,235,748	247,591,161
Total deposits	337,486,594	335,447,090
Federal funds purchased and securities sold under agreements to repurchase	27,789,544	24,325,372
Federal Home Loan Bank advances and other borrowings	53,480,000	54,715,000
Accrued interest payable	211,452	176,761
Other liabilities	1,282,836	1,016,038
Total Liabilities	<u>420,250,426</u>	<u>415,680,261</u>
Stockholders' Equity:		
Preferred stock - no par value; 2,000,000 shares authorized; 148,920 shares issued and outstanding in 2011 and 114,540 shares issued and outstanding in 2010	3,579,085	2,727,424
Common stock - \$1.00 par value; 20,000,000 shares authorized; 6,709,199 issued in 2011 and 2010; 6,500,396 outstanding in 2011 and 2010	6,500,396	6,500,396
Additional paid-in capital	21,257,083	21,237,298
Retained deficit	(4,064,855)	(4,317,130)
Accumulated other comprehensive income	17,867	(328,835)
Total Stockholders' Equity	<u>27,289,576</u>	<u>25,819,153</u>
Total Liabilities and Stockholders' Equity	<u>\$447,540,002</u>	<u>\$441,499,414</u>

Photos/Multimedia Gallery Available: <http://www.businesswire.com/cgi-bin/mmg.cgi?eid=6699486&lang=en>

CONTACT:

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