

CORNERSTONE BANCSHARES INC

FORM 8-K (Unscheduled Material Events)

Filed 10/17/2003 For Period Ending 10/17/2003

Address	4154 RINGGOLD RD CHATTANOOGA, Tennessee 37412-416
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CIK	0001038773
Fiscal Year	12/31

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): October 17, 2003

CORNERSTONE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee	000-30497	62-1175427
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(State of Incorporation)	(Commission File No.)	(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 October 17, 2003, the Registrant issued a press release reporting earnings results for the fiscal quarter ending on September 30, 2003.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated October 17, 2003 reporting earnings results for the fiscal quarter ending on September 30, 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: October 17, 2003

By: \s\ Nathaniel F. Hughes

*Nathaniel F. Hughes,
President and Treasurer*

EXHIBIT INDEX

<i>Exhibit No.</i>	<i>Description</i>
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99.1	Press release dated October 17, 2003 reporting earnings results for the fiscal quarter ending on September 30, 2003.

Exhibit 99.1

HIXSON, Tenn., Oct. 17 /PRNewswire-FirstCall/ -- Cornerstone Bancshares, Inc. (OTC Bulletin Board: CSBQ) today announced the following:

Cornerstone Bancshares, Inc. saw its 3rd quarter earnings increase to \$492 thousand or \$.40 a share for the third quarter and \$1.394 million year to date or \$1.13 a share. Due to these results the company is adjusting its earning guidance from \$1.45 per share to \$1.50 per share for 2003; the second increase in as many quarters and is very optimistic about future earnings growth. Loan growth is at 39% over the same quarter in 2002 but saw a leveling of loan growth during the historically slow third quarter on a quarter-to-quarter basis. The Bank 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 4.92% when compared to peers, second, earning assets as a percentage of total assets have grown to 94%, third, non interest income has increased 52% compared with 2002 third quarter. All of which bode well for future earnings. On the horizon the Bank is in the final stages of completing the bidding process for our new Ooltewah Branch and will commence the construction during the 4th quarter of 2003 and expects the branch to open during the first quarter of 2004.

The asset quality remained at the superior level during the first half of 2003 as non-performing loans as a percentage of average total loans dropped to 0.06% while past due loans as a percentage of total loans dropped to 0.29%. The Bank continued to recover more loans than it charged off for the second quarter in a row and as a result was able to increase the loan loss allowance to 1.44% with a \$255 thousand provision for the quarter. The provision was in response to a possible loan loss that may occur during the fourth quarter of 2003. 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. 3rd quarter 2003 earnings of \$492 thousand represents an 85.0% increase over the 3rd quarter in 2002 earnings of \$266 thousand. Earnings per share for the 3rd quarter 2003 was \$0.40 compared to \$0.22 per share for the 3rd quarter of 2002. Cornerstone is confident this earnings growth will continue throughout 2003 and anticipates earnings per share to grow to \$1.50 a share an increase of 75% over 2002.

Cornerstone Bancshares, Inc. is a one-bank holding company serving the Chattanooga, Tennessee MSA with 4 branches and \$185 million in assets specializing in business financial services.

CORNERSTONE BANCSHARES, INC.

Selected Financial Information as of September 30, 2003

(in thousands)

	Three Months			Year-to-Date		
	Ending Sept 30	2002	%	Ending Sept 30	2002	%
EARNINGS SUMMARY	2003	2002	Change	2003	2002	Change
Interest income \$	2,903	\$ 2,455	18.23%	\$ 8,347	\$ 7,109	17.43%
Interest expense	797	807	-1.30%	2,414	2,481	-2.71%
Net interest income	2,107	1,648	27.79%	5,933	4,627	28.22%
Provision for loan loss	255	150	70.00%	410	420	-2.38%
Net interest income after provision	1,852	1,498	23.57%	5,523	4,207	31.28%
Noninterest income	360	235	52.75%	934	716	30.40%
Noninterest expense	1,412	1,290	9.43%	4,191	3,672	14.14%
Pretax income	799	443	80.20%	2,266	1,252	81.06%
Income taxes	308	178	73.03%	873	499	74.98%
Net income \$	\$ 492	\$ 266	85.00%	\$ 1,393	\$ 753	85.09%
Earnings per common share \$	\$ 0.40	\$ 0.22		\$ 1.13	\$ 0.61	
Weighted average common shares						

outstanding 1,243,167 1,233,167 1,238,167 1,233,167

	Three Months			Year-to-Date		
	Ending Sept 30	2002	%	Ending Sept 30	2002	%
AVERAGE BALANCE SHEET SUMMARY	2003	2002	Change	2003	2002	Change
Loans, net of unearned income	\$148,873	\$107,130	38.96%	\$137,585	\$104,371	31.82%

Investment securities & Other	23,391	24,713	-5.35%	25,765	24,286	6.09%
Earning assets	172,264	131,843	30.66%	163,350	128,657	26.97%
Total assets	183,144	143,967	27.21%	174,343	140,428	24.15%
Noninterest bearing deposits	18,742	15,569	20.39%	17,448	13,985	24.76%
Interest bearing transaction deposits	47,251	39,649	19.17%	46,797	38,488	21.59%
Certificates of deposit	75,693	62,603	20.91%	72,217	63,607	13.54%
Total deposits	141,687	117,820	20.26%	136,462	116,080	17.56%
Other interest bearing liabilities	23,849	10,520	126.71%	20,817	9,027	130.61%
Shareholder's equity	16,352	14,802	10.47%	15,898	14,509	9.57%

SELECTED RATIOS	Three Months Ending Sept 30		Year-to-Date Ending Sept 30	
	2003	2002	2003	2002
Average equity to average assets	8.93%	10.28%	9.12%	10.33%
Average net loans to average total assets	81.29%	74.41%	78.92%	74.32%

Return on average assets 1.07% 0.74% 1.07% 0.71%

Return on average total

equity	12.02%	7.18%	11.69%	6.92%
Book value per common share	\$13.15	\$12.00		

CORNERSTONE BANCSHARES, INC.

Selected Financial Information
as of September 30, 2003

(in thousands)

NONPERFORMING ASSETS

Quarter Ending	2003			2002	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Avg loans, less investor loans	\$ 148,873	\$ 136,473	\$ 125,363	\$ 117,486	\$ 107,130
Nonaccrual loans	83	0	49	49	125
Repossessed assets	0	4	0	0	40
Other real estate, net	344	240	240	240	436
Total nonperforming assets	\$ 428	\$ 244	\$ 289	\$ 289	\$ 601
Loans 90 days past due	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total nonperforming assets as a percentage of average loans and OREO	0.29%	0.18%	0.23%	0.25%	0.56%
Loans ninety days past due as a percentage of average loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total nonperforming loans as a percentage of average loans	0.06%	0.00%	0.04%	0.04%	0.12%

ALLOWANCE FOR LOAN LOSS

Quarter Ending	2003			2002	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Balance at beginning of period	\$ 1,828	\$ 1,692	\$ 1,591	\$ 1,351	\$ 1,323
Loans charged-off	8	39	68	40	109
Loan recoveries	16	125	63	17	(13)
Net Charge-offs (recoveries)	(8)	(86)	5	23	122
Add provision for loan losses	255	50	105	263	150
Balance at end of period	\$ 2,091	\$ 1,828	\$ 1,692	\$ 1,591	\$ 1,351
Loan loss reserve as a percentage of average loans	1.40%	1.34%	1.35%	1.35%	1.26%
Loan loss reserve as a percentage of nonperforming assets	488.83%	748.80%	585.99%	551.05%	224.62%

Annualized net charge-offs as a percentage of average loans- QTD -0.02% -0.25% 0.01% 0.08% 0.46%

Annualized net charge-offs as a percentage of average loans- YTD -0.09% -0.12% 0.01% 0.33% 0.50%

**CORNERSTONE BANCSHARES, INC.
CONSOLIDATED AVERAGE BALANCE
INTEREST INCOME/EXPENSE AND
YIELD/RATES**

Taxable Equivalent Basis (in thousands)	Three months ended September 30					
	2003			2002		
Assets	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Earning assets:						
Loans, net of unearned income	\$148,873	\$2,672	7.20%	\$107,130	\$2,167	8.03%
Investment securities	23,079	229	4.09%	22,461	274	4.83%
Other earning assets	312	2	2.00%	2,252	14	2.54%
Total earning assets	172,264	\$2,903	6.77%	131,843	\$2,455	7.39%
Allowance for loan losses	(1,916)			(1,312)		
Cash and other assets	12,796			13,437		
TOTAL ASSETS	\$183,144			\$143,967		
Liabilities and Shareholder's Equity						
Interest bearing liabilities:						
Interest bearing demand deposits	\$22,038	\$12	0.22%	\$20,155	\$59	1.17%
Savings deposits	6,885	9	0.52%	5,961	19	1.24%
MMDA's	18,328	68	1.49%	13,533	72	2.11%
Time deposits of \$100,000 or less	57,227	394	2.76%	44,119	388	3.49%
Time deposits of \$100,000 or more	18,467	143	3.10%	18,484	172	3.69%
Federal funds purchased and securities sold under agreements to repurchase	6,449	22	1.39%	2,128	8	1.47%
Other borrowings	17,400	148	3.41%	8,391	89	4.21%
Total interest bearing liabilities	146,794	797	2.18%	112,771	807	2.84%
Net interest spread		\$2,107	4.60%		\$1,648	4.55%
Noninterest bearing demand deposits	18,742			15,569		
Accrued expenses and						

other liabilities	1,256	825
Shareholder's equity	16,352	14,802
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$183,144	\$143,967
Net yield on earning assets	4.92%	4.96%
Taxable equivalent adjustment:		
Loans	0	0
Investment securities	6	6
Total adjustment	6	6

**CORNERSTONE BANCSHARES, INC.
CONSOLIDATED AVERAGE BALANCE
INTEREST INCOME/EXPENSE AND
YIELD/RATES**

Taxable Equivalent Basis (in thousands)	Year-to-Date September 30					
Assets	2003			2002		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning assets:						
Loans, net of unearned income	\$137,585	\$7,587	7.37%	\$104,371	\$6,216	7.96%
Investment securities	24,051	743	4.23%	22,077	871	5.37%
Other earning assets	1,714	17	1.31%	2,209	37	2.23%
Total earning assets	163,350	\$8,347	6.85%	128,657	\$7,124	7.40%
Allowance for loan losses	(1,766)			(1,313)		
Cash and other assets	12,759			13,085		
TOTAL ASSETS	\$174,343			\$140,429		
Liabilities and Shareholder's Equity						
Interest bearing liabilities:						
Interest bearing demand						
deposits	\$21,776	\$51	0.31%	\$20,602	\$190	1.23%
Savings deposits	6,837	38	0.74%	5,622	52	1.24%
MMDA's	18,184	218	1.61%	12,264	193	2.11%
Time deposits of \$100,000 or less	53,336	1,186	2.97%	44,400	1,242	3.74%
Time deposits of \$100,000 or more	18,881	460	3.26%	19,207	560	3.90%
Federal funds purchased and securities sold under agreements to repurchase	5,125	49	1.29%	2,119	23	1.46%
Other borrowings	15,692	411	3.51%	6,908	220	4.26%
Total interest bearing liabilities	139,831	2,414	2.31%	111,122	2,481	2.99%
Net interest spread		\$5,933	4.54%		\$4,643	4.42%
Noninterest bearing						
demand deposits	17,448			13,985		
Accrued expenses and other liabilities	1,166			813		
Shareholder's equity	15,898			14,509		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$174,343			\$140,429		
Net yield on earning assets			4.87%			4.82%
Taxable equivalent adjustment:						
Loans		0			0	
Investment securities		18			15	
Total adjustment		18			15	

CORNERSTONE BANCSHARES, INC.

Selected Financial Information
as of September 30, 2003

(in thousands)

NONINTEREST INCOME	Three Months			Year-to-Date		
	Ending Sept 30 2003	Ending Sept 30 2002	% Change	Ending Sept 30 2003	Ending Sept 30 2002	% Change
Service charges on deposits	\$176	\$152	15.44%	\$486	\$408	18.91%
Other fee income	175	72	142.66%	420	269	55.92%
Other income	9	11	-19.10%	29	39	-25.81%
TOTAL	\$360	\$235	52.75%	\$934	\$716	30.40%

NONINTEREST EXPENSE	Three Months			Year-to-Date		
	Ending Sept 30 2003	Ending Sept 30 2002	% Change	Ending Sept 30 2003	Ending Sept 30 2002	% Change
Salaries and benefits	\$824	\$661	24.67%	\$2,380	\$1,905	24.94%
Net occupancy expense	91	92	-0.07%	288	264	9.27%
Furniture & Equipment	114	97	17.27%	318	271	17.22%
Other Operating Expense	382	440	-13.21%	1,205	1,232	-2.21%
TOTAL	\$1,412	\$1,290	9.43%	\$4,191	\$3,672	14.14%

SOURCE Cornerstone Bancshares, Inc.

-0- 10/17/2003 /CONTACT: Frank Hughes, Executive Vice President & Treasurer of Cornerstone Bancshares, Inc., +1-423-385-3009, or fax, +1-423-385-3100/

(CSBQ)

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