

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) October 24, 2008

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.)

835 Georgia Avenue, 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))
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Item 2.02. Results of Operations and Financial Condition

On October 17, 2008, the Registrant issued a press release reporting earnings results for the fiscal quarter ended September 30, 2008.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated October 17, 2008 reporting earnings results for the fiscal quarter ended September 30, 2008.

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: October 24, 2008

By : \s\ Nathaniel F. Hughes

Nathaniel F. Hughes,

President and Chief Operating Officer

Cornerstone Bancshares, Inc. Announces Third Quarter 2008 Financial Results

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

Cornerstone Bancshares, Inc. saw its third quarter earnings increase to \$860 thousand, or \$0.14 a share, versus \$559 thousand during the same period in 2007, an increase of 53.8%; while year-to-date earnings decreased to \$2.95 million, compared with \$3.78 million during the same time period in 2007. Year-to-date earnings per share decreased to \$0.47 versus \$0.58, a decrease of 16.4%. The decrease year over year has mostly been caused by net interest rate margin compression of approximately 120 basis points. The compression first began when the Federal Reserve rapidly reduced its Federal Funds rate 325 basis points then was compounded when a liquidity crisis erupted among several of the larger financial institutions on Wall Street. The result was higher cost of funds, especially in the certificate of deposit market. In most instances, the rate compressions and expansions are temporary; but until the inter-bank auctions and commercial paper markets stabilize, the banking industry will see their net interest margins remain below historical norms. The company's net interest margin for the third quarter of 2008 was 4.11%, a slight compression compared to the year-to-date margin of 4.22%. Cornerstone believes the present market is a difficult market to grow loans and the balance sheet, and is turning its attention to building stronger risk management and looking for strategic partnerships with institutions that need assistance dealing with this difficult environment.

The Bank continued to grow loans during 2008 but at a slower rate as loans increased to a year to date average of \$384 million, an increase of 11.3% over the same period during 2007. The Company's performance metrics pulled back to normal peer levels, ROA was 0.77% for the third quarter of 2008, compared to 0.52% during the third quarter in 2007. ROE was 9.1% during the third quarter in 2008, compared to 5.4% in 2007.

Presently, the Company is operating at a comfortable 8.40% capital leverage ratio and has the ability to continue to grow but will spend the remainder of 2008 building capital until the economic environment improves.

The asset quality deteriorated to the peer level during the third quarter of 2008; non-performing loans, as a percentage of average total loans, increased to 0.54%; while past-due loans, as a percentage of total loans, increased to 1.36%.

Cornerstone Bancshares, Inc. is a one-bank holding company serving the Chattanooga, Tennessee MSA, with five branches and one loan production office in Dalton, GA, and one loan production office in Knoxville, TN, and \$450 million in assets, specializing in business financial services.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which contains a safe harbor for forward-looking statements. The Company relies on this safe harbor in making such disclosures. The statements are based on management's current beliefs and assumptions about expectations, estimates, strategies and projections. These statements are not guarantees of future performance or results and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements.

CORNERSTONE BANCSHARES, INC.
Selected Financial Information
as of September 30, 2008
(in thousands)

EARNINGS SUMMARY	Three Months Ending September 30		% Change
	2008	2007	
Interest income	\$ 7,462	\$ 9,109	-18.08%
Interest expense	3,027	3,785	-20.04%
Net interest income	4,436	5,324	-16.69%
Provision for loan loss	440	2,964	-85.15%
Net interest income after provision	3,996	2,361	69.25%
Noninterest income	477	381	25.26%
Noninterest expense	3,151	2,371	32.90%
Pretax income	1,321	370	256.76%
Income taxes	461	(189)	-344.06%
Net income	\$ 860	\$ 559	53.78%
Earnings per common share	\$ 0.14	\$ 0.09	51.22%
Weighted average common shares outstanding (1)	6,319,718	6,520,081	

EARNINGS SUMMARY	Year-to-Date Ending September 30		% Change
	2008	2007	
Interest income	\$ 23,279	\$ 25,906	-10.14%
Interest expense	9,720	10,388	-6.43%
Net interest income	13,559	15,518	-12.62%
Provision for loan loss	927	3,201	-71.04%
Net interest income after provision	12,632	12,318	2.55%
Noninterest income	1,396	1,234	13.12%
Noninterest expense	9,464	8,115	16.62%
Pretax income	4,564	5,437	-16.05%
Income taxes	1,616	1,662	-2.74%
Net income	\$ 2,948	\$ 3,775	-21.91%
Earnings per common share	\$ 0.47	\$ 0.58	-19.54%
Weighted average common shares outstanding (1)	6,325,192	6,517,236	

AVERAGE BALANCE SHEET SUMMARY	Three Months Ending September 30		% Change
	2008	2007	
Loans, net of unearned income	381,342	367,056	3.89%
Investment securities & Other	48,578	43,561	11.52%
Earning assets	429,920	410,618	4.70%
Total assets	449,053	434,018	3.46%
Noninterest bearing deposits	41,204	46,673	-11.72%
Interest bearing transaction deposits	78,576	93,978	-16.39%
Certificates of deposit	186,077	173,773	7.08%
Total deposits	305,858	314,425	-2.72%
Other interest bearing liabilities	106,041	75,625	40.22%

Shareholder's equity		37,741		41,729		-9.56%
AVERAGE BALANCE SHEET SUMMARY		Year-to-Date Ending September 30				% Change
		2008		2007		
Loans, net of unearned income	\$	383,966	\$	344,890		11.33%
Investment securities & Other		46,724		40,453		15.50%
Earning assets		430,690		385,343		11.77%
Total assets		449,257		407,445		10.26%
Noninterest bearing deposits		42,688		42,541		0.35%
Interest bearing transaction deposits		85,872		91,263		-5.91%
Certificates of deposit		183,517		161,730		13.47%
Total deposits		312,077		295,534		5.60%
Other interest bearing liabilities		99,347		68,977		44.03%
Shareholder's equity		37,408		40,561		-7.77%
SELECTED RATIOS		Three Months Ending September 30		Year-to-Date Ending September 30		
		2008		2008		2007
Average equity to average assets		8.40%		9.61%		8.33%
Average net loans to average total assets		84.92%		84.57%		85.47%
Return on average assets		0.77%		0.52%		0.87%
Return on average total equity		9.12%		5.36%		10.51%
Actual Equity on September 30,	\$	37,487,451	\$	41,273,694		
Actual # shares outstanding on September 30		6,319,718		6,519,718		
Book value per common share	\$	5.93	\$	6.33		