



SUBSCRIPTION DOCUMENTS
FOR
CORNERSTONE BANCSHARES, INC.
SERIES A CONVERTIBLE PREFERRED STOCK

Cornerstone Bancshares, Inc.
Series A Convertible Preferred Stock

Instructions for Subscription Documents

To subscribe for shares of Series A Convertible Preferred Stock of Cornerstone Bancshares, Inc., a Tennessee corporation (the “Company”), as detailed in the prospectus dated June 23, 2010 relating to the public offering of up to 600,000 shares of Series A Convertible Preferred Stock, subject to the terms and conditions set forth in the Subscription Agreement enclosed herewith, please follow the procedures set forth below.

1. Complete and execute the Subscription Agreement.
 - At the top of page 1, fill in the legal name of the individual or entity subscribing for shares (“Subscriber”), the number of shares subscribed for, and the Purchase Price (equal to the number of shares subscribed for multiplied by the per share purchase price of \$25.00). **The minimum and maximum subscriptions are \$10,000 (400 shares) and \$2,500,000 (100,000 shares), respectively, subject to lesser or greater amounts being accepted at the discretion of the Company.**
 - Complete and execute the Individual Signature Page or the Entity Signature Page, as applicable. **Please note that if the subscription is being made by more than one person, including a subscription in the joint name of husband and wife, then the Subscription Agreement must be executed by all subscribers.**
2. Enclose or wire transfer payment of the Purchase Price.
 - Enclose a personal, bank or cashiers check in the amount of the Purchase Price made payable to the order of “Cornerstone Bancshares, Inc.”
 - Wire transfer funds in the amount of the Purchase Price to the Company, in accordance with the wiring instructions set forth in Section 3.1(d) of the Subscription Agreement, for credit to the account of the Company.
3. Complete and execute IRS Form W-9.
4. Send the original, completed Subscription Agreement, certification (as applicable) and Form W-9, together with the payment of the Purchase Price (unless sent by wire transfer as provided above), by mail, hand delivery or overnight or express courier service to the Company at:

Cornerstone Bancshares, Inc.
835 Georgia Avenue, Second Floor
Chattanooga, Tennessee 37402
Attention: Nathaniel F. Hughes

* * * *

If you have any questions regarding the completion of the subscription documents, please call Frank Hughes at (423) 385-3000.

Name of Subscriber: _____

Number of Shares: _____

Purchase Price: \$ _____

CORNERSTONE BANCSHARES, INC.

SUBSCRIPTION AGREEMENT

SERIES A CONVERTIBLE PREFERRED STOCK

Cornerstone Bancshares, Inc.
835 Georgia Avenue
Chattanooga, Tennessee 37402
Attention: Nathaniel F. Hughes

Ladies and Gentlemen:

Section 1

1.1 Subscription. The undersigned (“Subscriber”) hereby irrevocably subscribes for and agrees to purchase the number of shares of Series A Convertible Preferred Stock, no par value per share (“Series A Preferred Stock”), set forth above (the “Shares”) of Cornerstone Bancshares, Inc., a Tennessee corporation (the “Company”), at \$25.00 per share for an aggregate purchase price equal to the amount set forth above (the “Purchase Price”). Subscriber hereby acknowledges receipt of the prospectus dated June 15, 2010 relating to the public offering of 600,000 shares of Series A Preferred Stock (the “Prospectus”), which forms a part of the registration statement on Form S-1 initially filed with the Securities and Exchange Commission on May 7, 2010, as thereafter amended from time to time.

1.2 Purchase of Shares. In satisfaction of Subscriber’s subscription for the Shares, in the amount of the Purchase Price, Subscriber hereby (i) tenders to the Company a personal, bank or cashiers check in the amount of the Purchase Price made payable to the order of “Cornerstone Bancshares, Inc.” or (ii) agrees to wire transfer funds in the amount of the Purchase Price to the Company, in accordance with the wiring instructions set forth in Section 3.1(d), for credit to the account of the Company.

1.3 Acceptance or Rejection of Subscription.

(a) The Company may accept this subscription for Shares, in whole or in part, by delivery to Subscriber of a counterpart signature page hereto setting forth the portion of this subscription accepted by the Company.

(b) Subscriber understands and agrees that the Company reserves the right to reject this subscription for Shares, in whole or in part, without being required to state a reason therefore. If all or any portion of this subscription is rejected, the portion of the Purchase Price relating to the subscription so rejected, without interest, will be promptly returned to Subscriber without deduction and, in the event this subscription is rejected in whole, this Subscription Agreement shall be of no force or effect.

Section 2

2.1 General Representations, Warranties and Covenants. Subscriber hereby acknowledges, represents and warrants to, and agrees with, the Company as follows:

(a) Subscriber acknowledges receipt of the Prospectus.

(b) Subscriber represents and warrants that Subscriber has carefully read the Prospectus, including, without limitation, the section of the Prospectus entitled “Risk Factors.”

(c) Subscriber acknowledges and agrees that Subscriber is relying only on the information contained in the Prospectus in making the decision to purchase the Shares and that no representative of the Company or other person affiliated with the Company has provided any information to Subscriber with respect to the Shares, the offering of the Shares or the Company that is not contained in the Prospectus.

Section 3

3.1 How to Subscribe. To purchase the Shares, Subscriber must:

(a) Complete, date and sign this Subscription Agreement, including the Form W-9 accompanying this Subscription Agreement.

(b) Make payment by personal, bank or cashier’s check, or wire transfer payable to Cornerstone Bancshares, Inc., in the amount of the Purchase Price.

(c) Transmit the completed Subscription Agreement, together with payment in full for all Shares subscribed (unless payment is made separately by wire transfer), by mail, hand delivery or overnight or express courier service, to:

Cornerstone Bancshares, Inc.
835 Georgia Avenue, Second Floor
Chattanooga, Tennessee 37402

(d) If payment of the subscription price is to be made by wire transfer, the following wire instructions should be used:

Cornerstone Community Bank
ABA: 061304363
FBO Cornerstone Bancshares, Inc.
Acct: 143036803

3.2 Other Subscription Matters.

(a) The completed Subscription Agreement, together with payment in full for the Shares for which Subscriber wishes to subscribe, must be received by the Company prior to the Company’s termination of the offering. DELIVERY TO AN ADDRESS OR IN A MANNER OTHER THAN THOSE INDICATED ABOVE DOES NOT CONSTITUTE GOOD DELIVERY TO THE COMPANY. If the amount sent with this subscription is insufficient to purchase the number of Shares indicated above, or if Subscriber does not specify the number of Shares to be purchased, then the Company will treat this subscription as one to purchase Shares to the full extent of the payment sent.

(b) The method of delivery of this Subscription Agreement and payment of the Purchase Price will be at Subscriber’s election and risk. If this Subscription Agreement and the Purchase Price are sent by mail, the Company recommends that Subscriber uses registered mail, return receipt requested, and that Subscriber allows a sufficient number of days to ensure delivery and clearance of payment prior to the termination date. Subscriber will be required to pay the additional postage costs relating to registered mail.

(c) The Company will decide all questions concerning the timing, validity, form and eligibility of subscription agreements received and the Company’s decisions will be final and binding. The Company may, in its sole discretion, waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported subscription. Subscription agreements will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time

as the Company determines in its sole discretion. The Company will not be under any duty to give a subscriber notice of any defect or irregularity in the submission of subscription agreements or incur any liability for failure to give such notification. SUBSCRIPTIONS FOR SHARES MAY NOT BE REVOKED BY SUBSCRIBERS.

3.3 Modification. Neither this Subscription Agreement nor any provision hereof shall be modified, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

3.4 Notices. Any notice, demand or other communication which any party hereto may be required, or may elect, to give to anyone interested hereunder shall be sufficiently given if (a) deposited, postage prepaid, in a United States mail letter box, registered or certified mail, return receipt requested, addressed to such address as may be given herein, (b) delivered personally at such address, or (c) sent by overnight courier to such address.

3.5 Binding Effect. Except as otherwise provided herein, this Subscription Agreement shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives and permitted assigns. If Subscriber is more than one person, the obligations of Subscriber shall be joint and several and the agreements, representations, warranties and acknowledgments herein contained shall be deemed to be made by and be binding upon each such person and his heirs, executors, administrators and successors.

3.6 Entire Agreement. This instrument contains the entire agreement of the parties, and there are no representations, covenants or other agreements except as stated or referred to herein.

3.7 Assignment. This Subscription Agreement is not transferable or assignable by Subscriber.

3.8 Applicable Law. This Subscription Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee applicable to contracts made and to be performed entirely within such state and without regard to the State of Tennessee's conflicts of law provisions.

3.9 Counterparts. This Subscription Agreement may be executed through the use of separate signature pages or in any number of counterparts, and each of such counterparts shall, for all purposes, constitute one agreement binding on all the parties, notwithstanding that all parties are not signatories to the same counterpart.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK – SIGNATURE PAGE FOLLOWS]

INDIVIDUAL
SIGNATURE PAGE

Subscriber has executed this Subscription Agreement on this ____ day of _____, 2010.

For Individual Investors:

(Signature)

Print Name: _____

(Signature of Joint Investor)

Print Name of Joint Investor
if any: _____

Address:

Social Security Number: _____

Telephone Number: _____

Fax Number: _____

E-Mail Address: _____

* * * *

DO NOT WRITE BELOW THIS POINT

THE SUBSCRIPTION OF _____ SHARES OF SERIES A CONVERTIBLE PREFERRED STOCK OF
CORNERSTONE BANCSHARES, INC. FOR \$ _____ IS HEREBY ACCEPTED AND AGREED TO
AS OF THE ____ DAY OF _____, 2010.

CORNERSTONE BANCSHARES, INC.

By: _____

Name: Nathaniel F. Hughes

Title: President and Chief Executive Officer

ENTITY
SIGNATURE PAGE

Subscriber has executed this Subscription Agreement on this ____ day of _____, 2010.

For Corporate, Company, Trust,
Employee Benefit Plan or Other
Entity Investor:

(Print Name of Entity)

By: _____
(Signature)

Print Name: _____

Title: _____

Address:

Taxpayer ID Number: _____

Telephone Number: _____

Fax Number: _____

E-Mail Address: _____

Name of Trustees or Other Fiduciaries Exercising Investment
Discretion with Respect to Benefit Plan or Trust

Signature

Printed Name

Title

_____	_____	_____
_____	_____	_____
_____	_____	_____

AGREEMENT OF CUSTODIAN OF INDIVIDUAL RETIREMENT ACCOUNT

Subscriber, being the custodian of the above named individual retirement account, hereby accepts and agrees to this subscription.

By: _____

Signature of Authorized Signatory

Name of Custodian (Print)

Name of Authorized Signatory (Print)

* * * *

DO NOT WRITE BELOW THIS POINT

THE SUBSCRIPTION OF _____ SHARES OF SERIES A CONVERTIBLE PREFERRED STOCK OF CORNERSTONE BANCSHARES, INC. FOR \$ _____ IS HEREBY ACCEPTED AND AGREED TO AS OF THE ____ DAY OF _____, 2010.

CORNERSTONE BANCSHARES, INC.

By: _____

Name: Nathaniel F. Hughes

Title: President and Chief Executive Officer