


Dear Prospective Shareholder:

Enclosed you will find the prospectus and subscription agreement for the offering (“Offering”) of up to 600,000 shares of our new Series A Preferred Stock (“Preferred Stock”). The Preferred Stock features a 10% cumulative dividend and a conversion feature that enables the purchaser to participate in stock appreciation as the Bank recovers from the 2009 recession. The Offering is not undertaken lightly and all of the Bank’s stakeholders were considered in the creation of the Offering’s structure. The goal is to create an attractive security that can be purchased quickly while limiting the dilution to the current common stockholders. The Offering will allow Cornerstone to strengthen the Bank’s capital position for future growth, while we continue to take aggressive steps to improve the Bank’s asset quality. We at Cornerstone believe that, with this capital infusion, Cornerstone will be well positioned to move forward in the Chattanooga area, a market that holds great potential in the years ahead.

Cornerstone plans to raise \$15 million through this Offering and hopes to sell the Preferred Stock to as many stockholders, customers and friends of the Bank as possible. The Board of Directors believes strongly in the future success of Cornerstone and has lowered the minimum purchase amount to \$10,000, or 400 shares, to allow most investors the opportunity to participate. In a solid show of support, 100 percent of the Board and senior management have committed to participate in the Offering.

Please join the Board of Directors in investing in Cornerstone Bancshares, Inc., a true asset in the Chattanooga community for many years to come. Should you have any questions concerning the Offering, please feel free to contact either of us.

Sincerely,



W. Miller Welborn  
Chairman of the Board



N. Frank Hughes  
President & CEO

Note: To participate in this Offering, please include completed Subscription Agreement, W-9 form and payment in the postage-paid return envelope provided.