

PRESS RELEASE**For information contact:**

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HORIZON LINES REPORTS FIRST-QUARTER FINANCIAL RESULTS
Volume and EBITDA Improve Modestly From Year Ago

CHARLOTTE, NC, May 9, 2012 – Horizon Lines, Inc. (OTCQB: HRZL) today reported financial results for the fiscal first quarter ended March 25, 2012.

Financial results are presented on a continuing operations basis, excluding the discontinued trans-Pacific FSX service and logistics operations. Per-share amounts reflect a 1-for-25 reverse stock split, effective December 7, 2011.

GAAP and Non-GAAP Results from Continuing Operations (in millions, except per share data)*	Quarters Ended	
	3/25/2012	3/27/2011
GAAP:		
Operating revenue	\$ 263.4	\$ 240.7
Net loss	\$ (26.8)	\$ (20.2)
Net loss per basic and diluted share	\$ (8.58)	\$ (16.43)
Non-GAAP:*		
EBITDA	\$ 5.6	\$ 5.0
Adjusted EBITDA	\$ 10.9	\$ 10.6
Adjusted net loss	\$ (21.0)	\$ (15.8)
Adjusted net loss per basic and diluted share	\$ (6.74)	\$ (12.83)

* See attached schedules for reconciliation of reported 2012 and 2011 first-quarter GAAP results to Non-GAAP results.

“Horizon Lines generated slightly improved revenue container volume and higher EBITDA and adjusted EBITDA in the first quarter relative to a year ago, despite challenges that included severe winter weather in Alaska, higher fuel prices and increased expenses,” said Stephen H. Fraser, interim President and Chief Executive Officer. “Hawaii’s performance improved significantly on solid customer support and an improving economy. Alaska’s results were also better despite record cold and snowfall, which had a significant, adverse impact on customer demand and operations. Alaska was buoyed in part by domestic southbound volume that was driven by a strong seafood market. Earnings declined in Puerto Rico from the same period a year ago, due to continued slow business conditions and vessel service disruptions.

“In 2012, we are making significant investments in our Jones Act fleet with the dry-docking of three of our Puerto Rico vessels in Asia,” Mr. Fraser said. “Although dry-docking our vessels in Asia will add considerable transit expense in 2012, it will also facilitate extensive maintenance and high-quality enhancements that are instrumental in helping maintain service integrity in the Puerto Rico market.”

First-Quarter 2012 Financial Highlights

- Volume, Rate & Fuel Cost** – Container volume for the 2012 first quarter totaled 57,086 revenue loads, up 0.4% from 56,841 loads for the same period a year ago. Unit revenue per container totaled \$4,257 in the 2012 first quarter, compared with \$3,896 a year ago. First-quarter unit revenue per container, net of fuel surcharges, was \$3,225, up 1.0% from \$3,192 a year ago. Bunker fuel costs averaged \$693 per metric ton in the first quarter, 26.5% above the average price of \$548 per ton in the same quarter a year ago.
- Operating Revenue** – First-quarter operating revenue from continuing operations increased 9.4% to \$263.4 million from \$240.7 million a year ago. The factors driving the \$22.7 million revenue improvement were: an \$18.9 million increase in fuel surcharges; growth of \$1.7 million in revenue container rates; a \$1.3 million rise in other non-transportation services revenue; and a \$0.8 million gain in volume.
- Operating Loss** – The GAAP operating loss from continuing operations for the first quarter totaled \$6.1 million, compared with an operating loss of \$9.4 million a year ago. The 2012 first-quarter GAAP operating loss includes a \$1.1 million charge for severance expenses, \$0.8 million in antitrust-related legal expenses, and \$0.7 million in refinancing costs. The 2011 first-quarter GAAP operating loss includes a \$2.8 million charge related to severance expenses and \$2.2 million in antitrust-related legal expenses. Adjusting for these items, the first-quarter 2012 adjusted operating loss from continuing operations totaled \$3.5 million, compared with an adjusted operating loss of \$4.4 million a year ago. First-quarter 2012 operating results benefited from improved partial recovery of increased fuel costs, higher earnings from transportation services contracts, and slightly better volumes. The positive factors were partially offset by costs associated with vessel-related service disruptions, variable expense increases that exceeded the container rate improvements, and higher overhead costs.
- EBITDA** – EBITDA from continuing operations totaled \$5.6 million for the 2012 first quarter, compared with \$5.0 million for the same period a year ago. Adjusted EBITDA from continuing operations for the first quarter of 2012 was \$10.9 million, an increase of 2.8% from \$10.6 million for 2011. EBITDA and adjusted EBITDA for the 2012 and 2011 first quarters were impacted by the same factors affecting operating loss. Additionally, 2012 adjusted EBITDA reflects the exclusion of a \$13.7 million non-cash loss on marking the conversion feature in the company’s convertible debt to fair value, partially offset by the elimination of a non-cash \$10.3 million net gain resulting from the conversion of debt into equity. First-quarter 2011 adjusted EBITDA also excluded a charge of \$0.6 million related to a loss on the modification of debt.

Net Loss – On a GAAP basis, the first-quarter net loss from continuing operations totaled \$26.8 million, or \$8.58 per share, compared with a 2011 first-quarter net loss from continuing operations of \$20.2 million, or \$16.43 per share. On an adjusted basis, the first-quarter net loss from continuing operations totaled \$21.0 million, or \$6.74 per share, compared with an adjusted net loss of \$15.8 million, or \$12.83 per share, a year ago. The 2012 and 2011 first-quarter net losses reflect the same items impacting adjusted EBITDA in each period. Additionally, the net loss for both periods reflects non-cash accretion of payments associated with antitrust-related legal settlements, and the tax impact on the adjustments.

Shares Outstanding – The company had a weighted daily average of 3.1 million basic and fully diluted shares outstanding for the first quarter of 2012, compared with 1.2 million basic and fully diluted shares outstanding for the first quarter a year ago. Shares outstanding reflect a 1-for-25 reverse stock split approved at a special meeting of stockholders on December 2, 2011, and made effective on December 7, 2011.

Liquidity, Credit Facility Compliance & Debt Structure – Based on accounts receivable outstanding as of March 25, 2012, the company had total liquidity of \$50.9 million, consisting of \$24.9 million in cash and \$26.0 million of asset-based loan (“ABL”) borrowing availability. Funded debt outstanding totaled \$592.7 million, consisting of: \$225.0 million of 11.00% first-lien senior secured notes due October 15, 2016; \$100.0 million of second-lien senior secured notes due October 15, 2016, bearing interest at 13.00% if paid in cash, 14.00% if paid 50% in cash and 50% in kind, and 15.00% if paid in kind with additional second-lien secured notes; \$228.4 million of 6.00% convertible secured notes due April 15, 2017; and \$30.0 million drawn on the ABL facility, bearing interest at a weighted average of 3.73%. Also remaining outstanding were \$2.2 million of 4.25% convertible notes due August 15, 2012, and a \$7.1 million capital lease. The company’s weighted average interest rate for funded debt was 9.01%. Availability under the ABL facility is based on a percentage of eligible accounts receivable and customary reserves, with a maximum of \$100.0 million. Letters of credit issued against the ABL facility totaled \$19.6 million at March 25, 2012.

Please see attached schedules for the reconciliation of first-quarter 2012 and 2011 reported GAAP results and Non-GAAP adjusted results.

Completion of Financial Restructuring

On April 9, 2012, the company entered into transactions with noteholders representing approximately 99% of the outstanding \$228.4 million of the 6.00% Series A and Series B convertible senior secured notes to substantially deleverage the balance sheet by converting the notes into common stock and warrants. At the same time, the company agreed with Ship Finance International Limited (“SFL”) and certain of its subsidiaries to terminate the company’s vessel charter obligations related to its discontinued trans-Pacific service in exchange for the issuance of \$40.0 million of debt, plus warrants to purchase 9.25 million shares of the company’s common stock. These simultaneous transactions

resulted in a net debt reduction of approximately \$188.4 million and the elimination of \$32.0 million in annual vessel charter obligations through 2018, and \$4.8 million in 2019, as well as associated vessel lay-up costs of \$3.0 million per year, assuming the five vessels were to remain inactive.

As a result of the conversion of the Series A and Series B notes, the company expects to record a non-cash loss on the conversion of approximately \$185.4 million during the second quarter of 2012. In connection with the termination of the vessel lease obligations with SFL, the company also expects to record a second-quarter charge of \$19.0 million, which will be recorded as part of discontinued operations.

Outlook

The company continues to project that 2012 container volumes will increase modestly, in the 1% to 2% range, and that container rates, net of fuel surcharges, will rise slightly from 2011 levels. Fuel prices for 2012 are currently projected in the \$725-\$730 per-ton range, excluding additional costs for low sulfur fuel that will be required in the Alaska tradelane, effective August 1, 2012.

Use of Non-GAAP Measures

Horizon Lines reports its financial results in accordance with U.S. generally accepted accounting principles (GAAP). The company also believes that the presentation of certain non-GAAP measures, i.e., EBITDA and results excluding certain costs and expenses, provides useful information for the understanding of its ongoing operations and enables investors to focus on period-over-period operating performance without the impact of significant special items. The company further feels these non-GAAP measures enhance the user's overall understanding of the company's current financial performance relative to past performance and provide a better baseline for modeling future earnings expectations. Non-GAAP measures are reconciled in the financial tables accompanying this news release. The company cautions that non-GAAP measures should be considered in addition to, but not as a substitute for, the company's reported GAAP results.

About Horizon Lines

Horizon Lines, Inc. is one of the nation's leading domestic ocean shipping companies and the only ocean cargo carrier serving all three noncontiguous domestic markets of Alaska, Hawaii and Puerto Rico from the continental United States. The company maintains a fleet of 15 fully Jones Act qualified vessels and operates five port terminals in Alaska, Hawaii and Puerto Rico. A trusted partner for many of the nation's leading retailers, manufacturers and U.S. government agencies, Horizon Lines provides reliable transportation services that leverage its unique combination of ocean transportation and inland distribution capabilities to deliver goods that are vital to the prosperity of the markets it serves. The company is based in Charlotte, NC, and its stock trades on the over-the-counter market under the symbol HRZL.

Forward Looking Statements

The information contained in this press release should be read in conjunction with our filings made with the Securities and Exchange Commission. This press release contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. Words such as, but not limited to, “believe,” “anticipate,” “plan,” “targets,” “projects,” “will,” “expect,” “would,” “could,” “should,” “may,” and similar expressions or phrases identify forward-looking statements.

Factors that may cause expected results or anticipated events or circumstances discussed in this press release to not occur or to differ from expected results include: our ability to maintain adequate liquidity to operate our business; our ability to make interest payments on our outstanding indebtedness; failure to comply with the terms of our probation imposed by the court in connection with our pleas relating to antitrust and environmental matters; volatility in fuel prices; decreases in shipping volumes; the reaction of our customers and business partners to our announcements and filings, including those referred to herein; government investigations related to (i) the imposition of fuel surcharges in connection with government contracts, (ii) regulations covering products transported on our vessels, including the FDA and USDA, or (iii) any other government investigations and legal proceedings; suspension or debarment by the federal government; compliance with safety and environmental protection and other governmental requirements; increased inspection procedures and tighter import and export controls; repeal or substantial amendment of the coastwise laws of the United States, also known as the Jones Act; catastrophic losses and other liabilities; our ability to integrate new and retain existing management; the successful start-up of any Jones-Act competitor; failure to comply with the various ownership, citizenship, crewing, and U.S. build requirements dictated by the Jones Act; the arrest of our vessels by maritime claimants; severe weather and natural disasters; and the aging of our vessels and unexpected substantial dry-docking or repair costs for our vessels.

All forward-looking statements involve risk and uncertainties. In light of these risks and uncertainties, expected results or other anticipated events or circumstances discussed in this press release might not occur. The forward-looking statements included in the press release are made only as of the date they are made and the company undertakes no obligation to update any such statements, except as otherwise required by applicable law. See the section entitled “Risk Factors” in our 2011 Form 10-K filed with the SEC on April 10, 2012, for a more complete discussion of these risks and uncertainties and for other risks and uncertainties. Those factors and the other risk factors described therein are not necessarily all of the important factors that could cause actual results or developments to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences.

Horizon Lines, Inc.
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except per share data)

	<u>March 25,</u> <u>2012</u>	<u>December 25,</u> <u>2011</u>
Assets		
Current assets		
Cash	\$ 24,866	\$ 21,147
Accounts receivable, net of allowance of \$5,894 and \$6,416 at March 25, 2012 and December 25, 2011, respectively	118,033	105,949
Materials and supplies	29,520	28,091
Deferred tax asset	10,311	10,608
Assets of discontinued operations	7,695	12,975
Other current assets	7,945	7,196
Total current assets	198,370	185,966
Property and equipment, net	163,673	167,145
Goodwill	198,793	198,793
Intangible assets, net	63,672	69,942
Other long-term assets	16,238	17,963
Total assets	<u>\$ 640,746</u>	<u>\$ 639,809</u>
Liabilities and Stockholders' Deficiency		
Current liabilities		
Accounts payable	\$ 44,585	\$ 31,683
Current portion of long-term debt, including capital lease	5,925	6,107
Accrued vessel rent	11,465	13,652
Current liabilities of discontinued operations	28,269	45,313
Other accrued liabilities	102,045	97,097
Total current liabilities	192,289	193,852
Long-term debt, including capital lease, net of current portion	533,231	509,741
Deferred rent	12,435	13,553
Deferred tax liability	10,702	10,702
Liabilities of discontinued operations	54,852	51,293
Other long-term liabilities	25,031	26,654
Total liabilities	828,540	805,795
Stockholders' deficiency		
Preferred stock, \$.01 par value, 30,500 shares authorized; no shares issued or outstanding	-	-
Common stock, \$.01 par value, 100,000 shares authorized, 3,456 shares issued and 3,304 shares outstanding as of March 25, 2012 and 2,421 shares issued and 2,269 shares outstanding as of December 25, 2011	615	605
Treasury stock, 152 shares at cost	(78,538)	(78,538)
Additional paid in capital	223,358	213,135
Accumulated deficit	(335,769)	(303,260)
Accumulated other comprehensive income	2,540	2,072
Total stockholders' deficiency	(187,794)	(165,986)
Total liabilities and stockholders' deficiency	<u>\$ 640,746</u>	<u>\$ 639,809</u>

Horizon Lines, Inc.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except per share data)

	<u>Quarters Ended</u>	
	<u>March 25, 2012</u>	<u>March 27, 2011</u>
Operating revenue	\$ 263,354	\$ 240,720
Operating expense:		
Vessel	88,645	75,549
Marine	50,605	48,513
Inland	46,697	42,292
Land	37,880	35,634
Rolling stock rent	9,974	9,721
Cost of services (excluding depreciation expense)	233,801	211,709
Depreciation and amortization	10,401	10,877
Amortization of vessel dry-docking	4,012	4,068
Selling, general and administrative	21,514	22,979
Miscellaneous expense (income), net	(310)	443
Total operating expense	269,418	250,076
Operating loss	(6,064)	(9,356)
Other expense:		
Interest expense, net	17,739	10,716
(Gain) loss on conversion/modification of debt	(10,982)	620
Loss on change in value of debt conversion features	13,670	-
Other expense, net	14	14
Loss from continuing operations before income tax expense (benefit)	(26,505)	(20,706)
Income tax expense (benefit)	297	(485)
Net loss from continuing operations	(26,802)	(20,221)
Net loss from discontinued operations	(5,707)	(13,851)
Net loss	<u>\$ (32,509)</u>	<u>\$ (34,072)</u>
Basic and diluted net loss per share:		
Continuing operations	\$ (8.58)	\$ (16.43)
Discontinued operations	(1.83)	(11.25)
Basic net loss per share	<u>\$ (10.41)</u>	<u>\$ (27.68)</u>
Number of shares used in calculation:		
Basic	3,122	1,231
Diluted	3,122	1,231

Horizon Lines, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended	
	March 25, 2012	March 27, 2011
Cash flows from operating activities:		
Net loss from continuing operations	\$ (26,802)	\$ (20,221)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,339	5,799
Amortization of other intangible assets	5,062	5,078
Amortization of vessel dry-docking	4,012	4,068
Amortization of deferred financing costs	770	815
Loss on change in value of conversion features	13,670	-
(Gain) loss on conversion/modification of debt	(10,982)	620
Deferred income taxes	297	(685)
Gain on equipment disposals	(28)	(12)
Stock-based compensation	48	282
Accretion of interest on convertible notes	2,710	2,850
Accretion of interest on legal settlements	544	240
Changes in operating assets and liabilities:		
Accounts receivable	(12,069)	(19,786)
Materials and supplies	(1,427)	(1,470)
Other current assets	(749)	50
Accounts payable	12,886	(9,694)
Accrued liabilities	9,345	8,520
Vessel rent	(3,306)	(6,097)
Vessel dry-docking payments	(4,936)	(4,966)
Accrued legal settlements	(1,000)	-
Other assets/liabilities	(1,879)	338
Net cash used in operating activities from continuing operations	(8,495)	(34,271)
Net cash used in operating activities from discontinued operations	(13,940)	(8,630)
Cash flows from investing activities:		
Purchases of property and equipment	(1,960)	(3,255)
Proceeds from the sale of property and equipment	127	206
Net cash used in investing activities from continuing operations	(1,833)	(3,049)
Net cash used in investing activities from discontinued operations	-	(215)
Cash flows from financing activities:		
Borrowing under ABL facility	30,000	-
Borrowing under revolving credit facility	-	63,500
Payments on revolving credit facility	-	(6,000)
Payments on long-term debt	-	(4,688)
Payments of financing costs	(1,574)	(3,243)
Payments on capital lease obligations	(439)	(384)
Net cash provided by financing activities	27,987	49,185
Net increase in cash from continuing operations	17,659	11,865
Net decrease in cash from discontinued operations	(13,940)	(8,845)
Net increase in cash	3,719	3,020
Cash at beginning of period	21,147	2,751
Cash at end of period	\$ 24,866	\$ 5,771

Horizon Lines, Inc.
Adjusted Operating Loss Reconciliation
(in thousands)

	<u>Quarter Ended</u> <u>March 25, 2012</u>	<u>Quarter Ended</u> <u>March 27, 2011</u>
Operating Loss	\$ (6,064)	\$ (9,356)
<u>Adjustments:</u>		
Union/Other Severance	1,124	2,806
Antitrust Legal Expenses	757	2,178
Refinancing Costs	646	-
Total Adjustments	<u>2,527</u>	<u>4,984</u>
Adjusted Operating Loss	<u>\$ (3,537)</u>	<u>\$ (4,372)</u>

Horizon Lines, Inc.
Adjusted Net Loss Reconciliation
(in thousands)

	<u>Quarter Ended</u> <u>March 25, 2012</u>	<u>Quarter Ended</u> <u>March 27, 2011</u>
Net Loss	\$ (32,509)	\$ (34,072)
Net Loss from Discontinued Operations	(5,707)	(13,851)
Net Loss from Continuing Operations	<u>(26,802)</u>	<u>(20,221)</u>
<u>Adjustments:</u>		
Loss on change in value of debt conversion features	13,670	-
Union/Other Severance	1,124	2,806
Antitrust Legal Expenses	757	2,178
Accretion of legal settlement	544	240
(Gain) Loss on Conversion/Modification of Debt/Other Refinancing Costs	(10,336)	620
Tax Impact of Adjustments	10	(1,422)
Total Adjustments	<u>5,769</u>	<u>4,422</u>
Adjusted Net Loss from Continuing Operations	<u>\$ (21,033)</u>	<u>\$ (15,799)</u>

Horizon Lines, Inc.
Adjusted Net Loss Per Share Reconciliation

	<u>Quarter Ended</u> <u>March 25, 2012</u>	<u>Quarter Ended</u> <u>March 27, 2011</u>
Net Loss Per Share	\$ (10.41)	\$ (27.68)
Net Loss Per Share from Discontinued Operations	(1.83)	(11.25)
Net Loss Per Share from Continuing Operations	<u>(8.58)</u>	<u>(16.43)</u>
<u>Adjustments Per Share:</u>		
Loss on change in value of debt conversion features	4.38	-
Union/Other Severance	0.36	2.28
Antitrust Legal Expenses	0.24	1.77
Accretion of legal settlement	0.17	0.20
(Gain) Loss on Conversion/Modification of Debt/Other Refinancing Costs	(3.31)	0.50
Tax Impact of Adjustments	-	(1.15)
Total Adjustments	<u>1.84</u>	<u>3.60</u>
Adjusted Net Loss Per Share from Continuing Operations	<u>\$ (6.74)</u>	<u>\$ (12.83)</u>

Horizon Lines, Inc.
EBITDA and Adjusted EBITDA Reconciliation
(in thousands)

	<u>Quarter Ended</u> <u>March 25, 2012</u>	<u>Quarter Ended</u> <u>March 27, 2011</u>
Net Loss	\$ (32,509)	\$ (34,072)
Net Loss from Discontinued Operations	(5,707)	(13,851)
Net Loss from Continuing Operations	<u>(26,802)</u>	<u>(20,221)</u>
Interest Expense, Net	17,739	10,716
Tax Expense (Benefit)	297	(485)
Depreciation and Amortization	<u>14,413</u>	<u>14,945</u>
EBITDA	5,647	4,955
Loss on change in value of debt conversion features	13,670	-
Union/Other Severance	1,124	2,806
Antitrust Legal Expenses	757	2,178
(Gain) Loss on /Conversion/Modification of Debt/Other Refinancing Costs	<u>(10,336)</u>	<u>620</u>
Adjusted EBITDA	<u>\$ 10,862</u>	<u>\$ 10,559</u>

Note: EBITDA is defined as net income plus net interest expense, income taxes, depreciation and amortization. We believe that EBITDA is a meaningful measure for investors as (i) EBITDA is a component of the measure used by our board of directors and management team to evaluate our operating performance and (ii) EBITDA is a measure used by our management team to make day-to-day operating decisions. Adjusted EBITDA excludes certain charges in order to evaluate our operating performance, for making day-to-day operating decisions and when determining the payment of discretionary bonuses.

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