HILTON HOTELS CORP
Form 11-K
June 25, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(d) of the
Securities Exchange Act of 1934

For the Year Ended December 31, 2003 **Commission file number 1-11463**

HILTON HOTELS 401(k) SAVINGS PLAN

(Full title of the plan)

Hilton Hotels Corporation

9336 Civic Center Drive

Beverly Hills, California 90210

(Name of issuer of the securities held pursuant to the plan and

the address of its principal executive office)

36-2058176

(I.R.S. Employer Identification No.)

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

Hilton Hotels 401(k) Savings Plan

Year ended December 31, 2003

with Report of Independent Registered Public Accounting Firm

Hilton Hotels 401(k) Savings Plan

Financial Statements and Supplemental Schedules

Year ended December 31, 2003

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Report of Independent Registered Public Accounting Firm

The Administrative Committee and Participants

Hilton Hotels 401(k) Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Hilton Hotels 401(k) Savings Plan as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2003 and 2002, and the changes in its net assets available for benefits for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2003 and schedule of delinquent participant contributions for the year then ended, are presented for the purpose of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan s management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ ERNST & YOUNG LLP

Los Angeles, California
June 21, 2004

Hilton Hotels 401(k) Savings Plan

Statements of Net Assets Available for Benefits

(In thousands)

	December 31	
	2003	2002
Assets		
Investments, at fair value	**$ 463,538**	$ 374,808
Non-interest bearing cash	**80**	
Receivables:		
Interest and dividends	**44**	384
Participant contributions	**531**	142
Employer contributions	**278**	72
Due from broker for securities sold	**1,299**	389
Total receivables	**2,152**	987
Total assets	**465,770**	375,795
Liabilities		
Due to broker for securities purchased	**1,360**	381
Total liabilities	**1,360**	381
Net assets available for benefits	**$ 464,410**	$ 375,414

See accompanying notes.

Hilton Hotels 401(k) Savings Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2003

(In thousands)

Additions:		
Contributions:		
Participant contributions	$	**38,014**
Employer contributions		**19,616**
Rollover contributions		**1,819**
Total contributions		**59,449**
Transfers in from other plan		**8**
Investment income:		
Interest and dividends		**4,595**
Net appreciation in fair value of investments		**67,710**
Total additions		**131,762**
Deductions:		
Benefits paid to participants		**42,269**
Administrative expenses		**497**
Total deductions		**42,766**
Net increase		**88,996**
Net assets available for benefits, beginning of year		**375,414**
Net assets available for benefits, end of year	$	**464,410**

See accompanying notes.

Hilton Hotels 401(k) Savings Plan

Notes to Financial Statements

December 31, 2003

1. Plan Description

The following description of the Hilton Hotels 401(k) Savings Plan (the Plan), formerly the Hilton Hotels Thrift Savings Plan, provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

General

The Plan is a defined contribution plan covering eligible employees of Hilton Hotels Corporation (the Company and Plan Sponsor) and affiliated companies that have adopted the Plan and have been approved by the Company s Board of Directors as being eligible for participation. The Hilton Hotels Thrift Savings Plan was established effective January 1, 1979, and was subsequently restated on November 6, 1996. Effective January 1, 2001, the Hilton Hotels Thrift Savings Plan was amended and the name of the Plan was changed to the Hilton Hotels 401(k) Savings Plan. The Company and participating affiliated companies are herein collectively referred to as Hilton. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Participation in the Plan is voluntary. Each employee of Hilton who is not covered by a collective bargaining agreement (unless such agreement provides for participation) is eligible to participate after attainment of age 21 and completing one year of service, as defined in the Plan document.

The Plan is administered by a committee (the Plan Administrator) appointed by the Company s Board of Directors. Under an agreement dated September 1, 1995, State Street Bank and Trust Company served as the Trustee of the Plan s assets. On December 7, 2001, the Plan Administrator appointed Wachovia Trust Company as Trustee and recordkeeper effective June 3, 2002.

Contributions

Participants may contribute from 1% to 50% of their compensation on a pre-tax basis each year. The Company contributes an amount equal to 100% of the first 3% of a participant s contributions and 50% of a participant s contributions to the extent contributions exceed 3%, but do not exceed 5% of a participant s compensation.

The Plan was amended effective January 1, 2002, such that the maximum Matching Company Contributions, as defined in the Plan document, made on behalf of any participant during a plan year shall not exceed the annual limitation contained in the Internal Revenue Code (the Code) Section 402(g)(5).

Each participant may contribute to the Plan any amount which is attributable to a distribution from another qualified plan if such distribution meets the requirements for a tax-free rollover. Contributions are subject to certain limitations of the Code.

Participant Accounts

Each participant s account is credited with the participant s contributions, the Company s contributions and a daily allocation of Plan earnings, based on the participant s share in the income, gains or losses of the investment funds in which assets are invested.

Vesting

Effective January 1, 2001, participants are immediately vested in both their contributions and in the Company s Matching Contributions, plus actual earnings thereon.

Forfeitures

Forfeitures pertaining to nonvested balances of participants who terminated prior to January 1, 2001, may be used to pay expenses and fees in connection with the administration of the Plan or may be used to reduce employer matching contributions. Forfeitures of terminated nonvested account balances totaled approximately $522,000 and $586,000 at December 31, 2003 and 2002, respectively. During the year ended December 31, 2003, employer matching contributions were reduced by approximately $183,000 from forfeited nonvested accounts.

Investment Options

Participants may direct their employee and employer contributions in 1% increments with certain limitations, in one of, or a combination of, the various investment options provided in the Plan.

Participant Loans

Each participant may borrow from his/her fund account a minimum of $1,000 up to a maximum of the lesser of $50,000 reduced by the outstanding balance of other loans, or 50% of the value of his/her vested balance. Loan transactions are treated as transfers to or from the account from which they are made. Loan terms range up to five years, unless the loan is used for the purchase of a primary residence, in which case the loan term is up to 15 years. Each loan is secured by the balance in the participants account. Loans bear interest at a fixed rate equal to the prime rate on the last day of the month preceding the month in which the loan is made. As of December 31, 2003, interest rates on outstanding loans ranged from 4.0% to 11.5%. Principal and interest are payable in equal installments over the loan term.

Payment of Benefits

On termination of service, including termination due to death, disability or retirement, a participant or his/her beneficiary generally receives the value of the participant s vested interest in his/her account in one lump-sum distribution. If a participant s account exceeds $5,000, the participant s written consent as to election of distribution must be obtained prior to distribution.

Withdrawals

If a participant has a financial hardship, as defined in the Plan document, the participant may be eligible to take a hardship withdrawal from his/her account. In addition, a participant may withdraw amounts from his/her after-tax contributions and rollover contributions at anytime for any reason.

Plan Termination and Amendment

Although the Company expects to continue the Plan indefinitely, the Company has the right under the Plan to discontinue the Plan, subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts. The Board of Directors of the Company reserves the right to amend all or any part of the Plan at any time.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Investment Valuation and Income Recognition

Investments in mutual funds and common stock are stated at fair value based on quoted market prices. Interest and non-interest bearing cash and participant loans are valued at cost, which approximates fair value. Investments in common trust funds are stated at estimated fair values, which have been determined based on the unit value of the funds.

The Hilton Hotels Corporation Stock Fund (the Fund) is tracked on a unitized basis. The Fund consists of Hilton Hotels Corporation common stock and cash sufficient to meet the Fund s daily cash needs. Unitizing the Fund allows for daily trades. The value of a unit reflects the combined value of the Hilton Hotels Corporation common stock and the cash held by the Fund.

Purchases and sales of investments are recorded on the trade date. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Net Appreciation (Depreciation) in Fair Value of Investments

Realized and unrealized appreciation (depreciation) is recorded in the accompanying statement of changes in net assets available for benefits as net appreciation in fair value of investments.

Risks and Uncertainties

The Plan provides for various investment options in investment securities. Investment securities are exposed to various risks such as interest rate, market and credit. The Plan s exposure to credit loss in the event of nonperformance of investments is limited to the carrying value of such instruments. The Plan s concentration of credit risk and market risk is dictated by the Plan s provisions as well as those of ERISA and the participants investment preference.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Payment of Benefits

Benefits are recorded when paid.

3. Tax Status of the Plan

The Plan has received a determination letter from the Internal Revenue Service dated April 11, 2002, stating that the Plan is qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation. Subsequent to this issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan sponsor has indicated that it will take the necessary steps, if any, to bring the Plan s operations into compliance with the Code.

4. Investments

The following table presents the fair value of investments that represent 5% or more of the Plan s net assets as of December 31, 2003 and 2002 (in thousands):

		2003		2002
Investments at fair value:				
Mutual funds:				
Fidelity Growth Company Fund	**$**	**75,046**	$	42,623
GE Institutional S&P 500 Index Fund		**75,763**		56,510
GE Institutional U.S. Equity Fund		**24,151**		18,909
American Balanced Fund		**76,227**		59,495
PIMCO Total Return Fund		**38,287**		43,437
Common trust fund:				
SEI Stable Asset Fund		**107,560**		105,438

During the year ended December 31, 2003, the Plan s investments (including investments bought, sold and held during the year) appreciated in value as follows (in thousands):

Mutual funds	**$**	**58,936**
Common trust fund		**4,545**
Common stock		**4,229**
	$	**67,710**

5. Party-In-Interest Transactions

Certain Plan investments are managed by the Trustee or are shares of stock of Hilton; therefore, these transactions qualify as party-in-interest transactions.

Hilton Hotels 401(k) Savings Plan

Schedule H, Line 4a Schedule of Delinquent Participant Contributions

EIN: 36-2058176 Plan: 101

Year ended December 31, 2003

Participant Contributions Transferred Late to the Plan	**Total that Constitute Nonexempt Prohibited Transactions**
$ 316,484	$ 316,484

Hilton Hotels 401(k) Savings Plan

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

EIN: 36-2058176 Plan: 101

December 31, 2003

(In thousands, except for share information)

Identity of Issue	Description of Investment, including Maturity Date, Current Rate of Interest and Maturity Value		Current Value
Hilton Common Stock Fund:			
*Hilton Hotels Corporation	Common Stock, 873,598 shares	$	14,965
Evergreen Institutional	Money Market		567
			15,532
Mutual Funds:			
Fidelity Investments	Fidelity Growth Company Fund, 1,498,813.71 shares		75,046
GE Institutional	S&P 500 Index Fund Institutional Class, 7,174,469.96 shares		75,763
GE Institutional	U.S. Equity Fund Service Class, 2,166,030.02 shares		24,151
Templeton	Foreign Fund, 1,368,625.77 shares		14,535
American	Balanced Fund, 4,408,724.15 shares		76,227
PIMCO	Total Return Fund, 3,031,389.55 units		38,287
Various	Self Managed Account		1,630
Neuberger Berman	Genesis Institutional, 312,361.76 shares		11,045
Common Trust Fund:			
SEI Trust Company	Stable Asset Fund, 9,986,860.82 units		107,560
Evergreen Institutional	Money Market		234
*Participant Loans	With interest rates ranging from 4% to 11.5%		23,528
Total assets		$	463,538

*Represents a party-in-interest as defined by ERISA.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

HILTON HOTELS 401(k) SAVINGS PLAN

DATED: June 23, 2004	By	/s/ DIETER HUCKESTEIN Dieter Huckestein *Chair, Pension and Thrift Committee*