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KERR MCGEE CORP /DE
Form 11-K
June 30, 2003

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, 2002

Commission File Number 1-16619

Kerr-McGee Corporation Employee Stock Ownership Plan

(full title of the Plan)

Kerr-McGee Corporation
Kerr-McGee Center
Oklahoma City, Oklahoma 73102

(Name of the issuer of the securities held pursuant to
the Plan and address of its principal executive office)

KERR-MCGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

DECEMBER 31, 2002 AND 2001

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Report of Independent Auditors

Financial Statements

Statements of Net Assets Available for Benefits as of December 31, 2002 and 2001

Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2002

Notes to Financial Statements

Supplemental Schedules

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

Schedule H, Line 4j - Schedule of Reportable Transactions

All other schedules required by the Employee Retirement Income Security Act of 1974 and the regulations promulgated by the Department of Labor have been omitted since they are inapplicable.

REPORT OF INDEPENDENT AUDITORS

Kerr-McGee Corporation Benefits Committee
Kerr-McGee Corporation Employee Stock Ownership Plan

We have audited the accompanying statements of net assets available for benefits of Kerr-McGee Corporation Employee Stock Ownership Plan (the Plan) as of December 31, 2002 and 2001, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. 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 auditing standards generally accepted in the 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

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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, 2002 and 2001, and the changes in its net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2002, and the reportable transactions for the year then ended, are presented for the purposes 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. The supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audit 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.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
May 27, 2003

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2002
(Thousands of dollars)

ASSETS -----	Unallocated -----	Allocated -----	Tot -----
Common stock of Kerr-McGee Corporation	\$ 27,897 -----	\$63,076 -----	\$90, -----
Total investments	27,897	63,076	90,
Dividends receivable	285	-	

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Interfund contributions receivable (payable)	(1,083)	1,083	
Interfund dividends receivable (payable)	(651)	651	
	-----	-----	-----
Total assets	26,448	64,810	91,000
	-----	-----	-----
LIABILITIES			
Notes payable	78,376	-	78,376
Interest payable	624	-	
	-----	-----	-----
Total liabilities	79,000	-	79,000
	-----	-----	-----
Net assets (liabilities) available for benefits	\$ (52,552)	\$64,810	\$12,258
	=====	=====	=====

The accompanying notes are an integral part of this statement.

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2001
(Thousands of dollars)

ASSETS	Unallocated	Allocated	Tot
-----	-----	-----	-----
Common stock of Kerr-McGee Corporation	\$ 51,603	\$72,677	\$124,280
Short-term investments	1,036	-	1,036
	-----	-----	-----

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Total investments	52,639	72,677	125,
Dividends receivable	430	-	
Interfund contributions receivable (payable)	(688)	688	
Interfund dividends receivable (payable)	(598)	598	
Interfund receivable (payable) for excess released shares	(3,052)	3,052	
Other assets	2	-	
	-----	-----	-----
Total assets	48,733	77,015	125,
	-----	-----	-----
LIABILITIES			
Notes payable	101,001	-	101,
Interest payable	1,121	-	1,
	-----	-----	-----
Total liabilities	102,122	-	102,
	-----	-----	-----
Net assets (liabilities) available for benefits	\$ (53,389)	\$77,015	\$ 23,
	=====	=====	=====

The accompanying notes are an integral part of this statement.

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2002
(Thousands of dollars)

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	Unallocated -----	Allocated -----	Tot -----
Company contributions	\$ 26,310	\$ -	\$26,
Dividend income	1,358	2,494	3,
Interest income	7	-	-
	-----	-----	-----
Total additions	27,675	2,494	30,
	-----	-----	-----
Interest expense	7,755	-	7,
Distributions to participants	-	4,540	4,
Transfers to (from) other fund	10,077	(10,077)	-
Transfer to SIP	-	6,154	6,
Depreciation of common stock	9,006	14,082	23,
	-----	-----	-----
Total deductions	26,838	14,699	41,
	-----	-----	-----
Net increase (decrease)	837	(12,205)	(11,
Net assets (liabilities) available for benefits -			
Beginning of year	(53,389)	77,015	23,
	-----	-----	-----
End of year	\$ (52,552)	\$64,810	\$12,
	=====	=====	=====

The accompanying notes are an integral part of this statement.

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

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DECEMBER 31, 2002 AND 2001

(1) PLAN DESCRIPTION

The Kerr-McGee Corporation Employee Stock Ownership Plan (the Plan) was established in September 1989, and is designed to comply with the Internal Revenue Code (the Code) Section 4975(e) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan was amended and restated effective January 1, 2001. The Plan, a leveraged employee stock ownership plan, invests only in the common stock of Kerr-McGee Corporation (the Company). The Plan covers all employees of the Company and its subsidiaries who make salary deferrals to the Kerr-McGee Savings Investment Plan (the SIP). Effective January 1, 1990, participant contributions to the SIP are matched by Company contributions to the Plan. These participant contributions are matched dollar-for-dollar by the Company, up to 6% of the participants' compensation as defined under the Plan. In addition, effective September 1, 2001, participant contributions by bargaining employees to the Kerr-McGee Pigments (Savannah) Inc., Employees Savings Plan (Savannah plan) are matched at a rate of \$.50 for every dollar contributed by the participant up to 6% of the participant's compensation. Although the Plan, SIP and the Savannah plan are separate plans, matching contributions to the Plan are contingent upon participants' contributions to the SIP or Savannah plan. Participants are not permitted to make contributions under the terms of the Plan.

Effective January 1, 2000, all participants in the SIP have an annual option to diversify up to 25% of their year-end Kerr-McGee stock balance in the Plan into investment options available in the SIP. This option must be exercised by March 31 of each year. The amount diversified during 2002 is shown as Transfers to SIP on the Statement of Changes in Net Assets Available for Benefits. Participants who are at least age 55 with 10 years of participation in the Pan may withdraw their 25% instead of diversifying within the SIP. They have this option for the first six years after meeting the eligibility requirements.

The Company may direct State Street Bank and Trust Company (the Trustee) to enter into acquisition loans for the purpose of acquiring Company stock for the benefit of participants. Pursuant to that authority, the Trustee and the Company entered into a Stock Purchase Agreement as of September 12, 1989. Under this agreement, the Plan purchased 2,680,965 shares of the Company's common stock at \$46.625 per share on November 29, 1989, the market value on that date. To finance the purchase, the Plan incurred indebtedness to a group of institutional investors in the aggregate principal amount of \$125,000,000 (see Note 4).

Company stock acquired with the proceeds of the initial loan is held in a suspense account. The Company's matching contributions and dividends paid on the common stock held in the loan suspense account are used to repay the loan. Stock is released from the loan suspense account as the principal and interest are paid. The stock is then allocated to participants' accounts at market value as the Company matches contributions made to the SIP by participants.

Dividends paid on the common stock held in participants' accounts are also used to repay the loan. Stock with a market value equal to the amount of the dividend is allocated to the participants' accounts. If the value of shares of Company stock released from the loan suspense account is not sufficient to make the required matching and dividend allocations to participants' accounts, the Company will contribute additional shares of common stock or cash which may be used to purchase shares or to make

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additional payments on the loan. All stock released from the loan suspense account within the year must be allocated to participants' accounts by year end. If the number of shares released is more than the required matching and dividend allocation, the excess will be allocated to participants.

Employees who are or become participants on or after January 1, 2000, are 100% vested in all Company matching contributions. A participant will receive a distribution of his vested interest in his account only upon termination of employment, retirement, death or permanent disability. No other withdrawals are permitted, except for diversification after age 55.

Distributions to participants are paid in a single sum consisting of shares of stock or cash, at the election of the participant. Distributions are recorded at the approximate market value as of the date of distribution. Terminating participants with more than \$5,000 in the Plan may defer distribution until age 70 1/2. Investments relating to these participants remain in the Trust until the terminated participant requests distribution. Participants who defer distribution continue to share in earnings and losses of the Plan.

The Plan is administered by the Kerr-McGee Corporation Benefits Committee (the Committee), which is appointed by the Board of Directors of the Company. Accounting and administration for the Plan are provided by the Company at no cost to the Plan. In addition, all expenses of the Trust are borne by the Company. During 2002, the Company paid \$78,000 of administrative and trust expenses on behalf of the Plan.

The Company intends to continue the Plan indefinitely, but reserves the right to alter, amend, modify, revoke or terminate the Plan at any time upon the direction of the Company's Board of Directors. If the Plan is terminated for any reason, the Committee will direct that the participants' account balances be distributed as soon as practical. Any unallocated funds remaining in the Plan after all participants have received their account balances may be disposed of as directed by the Company. The Company has no continuing liability under the Plan after the final disposition of the assets of the Plan.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Plan are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Investment Risk - The Plan provides for investment in Kerr-McGee Corporation common stock, which is exposed to various market volatility risks. Further, due to the level of risk associated with investments in common stock, it is possible that changes in the values of the investment will occur in the near term and that such changes could materially effect the amounts reported in the statements of net assets available for benefits.

Investment Valuations and Income Recognition - The Plan's investments are stated at fair value, and the Company stock is valued at its quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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Payment of Benefits - Distributions to terminating and withdrawing participants are recorded when paid.

(3) INVESTMENTS

The Plan's investment in the Company's common stock at December 31, 2002 and 2001, was as follows:

(Dollars in thousands)	Unallocated -----	Allocated -----	Total -----
2002			

Number of Shares	629,723	1,425,281	2,055,004
Cost	\$47,692	\$71,679	\$119,371
Market	\$27,897	\$63,076	\$ 90,973
2001			

Number of Shares	941,660	1,326,224	2,267,884
Cost	\$71,255	\$65,799	\$137,054
Market	\$51,603	\$72,677	\$124,280

(4) NOTES PAYABLE

On November 29, 1989, the Plan borrowed \$125,000,000 from a group of institutional investors for the purpose of acquiring the Company's common stock. This borrowing consisted of Series A notes in the amount of \$74,000,000 and Series B notes in the amount of \$51,000,000. The Company has guaranteed the Plan's indebtedness. In June 1996, the Plan issued a \$24,500,000 note, which bears interest at a fixed rate of 6.85%, to the Company (the Sponsor note) and used the funds to prepay a portion of the 9.47% fixed-rate Series A notes. The remaining balance of the Series A notes was paid on July 1, 1996, as scheduled. Scheduled principal payments on the Sponsor note began in January 1997 and continue through January 2003. Principal payments on the 9.61% fixed-rate Series B notes began in July 1998 and continue through January 2005.

Following the merger of Kerr-McGee Corporation and Oryx Energy Company (Oryx), the Oryx Capital Accumulation Plan (CAP plan) was merged into the Plan and the SIP during 1999. On August 1, 1989, the CAP plan borrowed \$110 million by privately placing ESOP notes with Oryx. The borrowing consisted of Series A, Series B and Series C sponsor notes with interest rates ranging from 8.35% to 8.70%. Scheduled principal payments on the Series A notes continue through July 2006. Principal payments on the Series B notes begin in August 2005 and continue through July 2008. Principal payments on the Series C notes begin in August 2008 and continue through July 2011. During 2002, a prepayment of \$6,900,000 was made on the Oryx notes.

Notes payable consisted of the following at year end:

(Thousands of dollars)	2002 -----	2001 -----
Sponsor note	\$ 3,130	\$ 3,630
Series B notes	10,750	20,750
Oryx Series A sponsor notes	19,248	26,587
Oryx Series B sponsor notes	17,470	19,318
Oryx Series C sponsor notes	27,778	30,716
	-----	-----
	\$78,376	\$101,001
	=====	=====

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Maturities of notes payable due after December 31, 2002, are \$14,153,000 in 2003, \$9,332,000 in 2004, \$7,945,000 in 2005, \$7,026,000 in 2006, \$7,556,000 in 2007 and \$32,364,000 thereafter.

(5) TAX STATUS

The plan obtained its latest determination letter dated November 5, 1999, in which the Internal Revenue Service stated that the Plan is a qualified plan under provisions of Section 401(a) and is exempt from Federal Income taxes under provisions of Section 501(a) of the Code. The Plan has been amended and restated since receiving its latest determination letter to reflect recent legislation. The Company has requested a determination letter which will cover the amendments and is of the opinion that the Plan continues to be operated in compliance with the applicable requirements of the Code and continues to be tax exempt.

(6) CONTRIBUTIONS

The Company's 2002 cash contributions to the Plan totaled \$26,310,000. In addition, the Company declared \$3,852,000 in dividends on the Company's stock held in the Plan. Of the total contributions, \$12,935,000 represents the Company's matching contributions for employees' savings in the SIP and \$194,000 represents the Company's matching contributions for employees' savings in the Savannah plan.

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

(Employer Identification Number 73-1612389)

(Plan Number 014)

DECEMBER 31, 2002

(Thousands of dollars)

(a) *	(b)	(c)	(d)
-----	Identity of issue, borrower, lessor or similar party	Description of investment including maturity date, rate of interest, collateral, par or maturity value	Cost -----
*	Kerr-McGee Corporation	Common stock (2,055,004 shares)	\$119,37

*Party-in-interest

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN
 SCHEDULE H, LINE 4j- SCHEDULE OF REPORTABLE TRANSACTIONS
 (Employer Identification Number 73-1612389)
 (Plan Number 014)
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (Thousands of dollars)

(a) Identity of party involved -----	(b) Description of asset -----	(c) Purchase price -----	(d) Selling price -----	(e) C -----
Category (iii) - Series of Transactions in excess of 5% of the Plan Assets: -----				
Kerr-McGee Corporation	Common Stock	\$34,503	-	\$
Kerr-McGee Corporation	Common Stock	-	\$53,191	\$

There were no category (i), (ii) or (iv) reportable transactions during the year ended December 31, 2002.

Columns (e) and (f) are not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Kerr-McGee Corporation Benefits Committee has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

KERR-McGEE CORPORATION EMPLOYEE STOCK OWNERSHIP PLAN

By

(Robert M. Wohleber)

Robert M. Wohleber
Chairman of the Kerr-McGee Corporation
Benefits Committee

Date: June 27, 2003