

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND  
Form DEF 14A  
March 13, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement
- [ ] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))
- [X] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material Pursuant to ss.240.14a-12

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND

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(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- [X] No fee required.
- [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - 1) Title of each class of securities to which transaction applies:
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  - 5) Total fee paid:
- [ ] Fee paid previously with preliminary materials.
- [ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

LEHMAN BROTHERS

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND

399 PARK AVENUE  
NEW YORK, NEW YORK 10022

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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Dear SHAREHOLDER:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders ("Annual Meeting") of Lehman Brothers First Trust Income Opportunity Fund, a Delaware statutory trust (the "Fund"), will be held on April 16, 2007, at 3:30 p.m. Eastern time at the offices of Neuberger Berman, LLC, an affiliate of Neuberger Berman Management Inc., the Fund's investment adviser, at 605 Third Avenue, 41st Floor, New York, New York 10158-3698 for the following purposes:

- (1) To elect five Class II trustees as outlined below:
  - (a) Four Class II trustees, C. Anne Harvey, George W. Morriss, Jack L. Rivkin and Tom D. Seip, to be elected by the holders of common shares (the "Common Shares") and Money Market Cumulative Preferred Shares (the "MMP Shares"), voting together as a single class, such trustees to serve until the annual meeting of shareholders in 2010, or until their successors are elected and qualified; and
  - (b) One Class II trustee, John Cannon, to be elected by the holders of MMP Shares only, voting separately as a single class, such trustee to serve until the annual meeting of shareholders in 2010, or until such trustee's successors are elected and qualified; and
- (2) To consider and act upon any other business that may properly come before the Annual Meeting or any adjournments thereof.

You are entitled to vote at the Annual Meeting of your Fund and any adjournments thereof if you owned Fund shares at the close of business on February 21, 2007 (the "Record Date"). IF YOU ATTEND THE ANNUAL MEETING, YOU MAY VOTE YOUR SHARES IN PERSON. IF YOU DO NOT EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE REVIEW THE ENCLOSED MATERIALS AND FOLLOW THE INSTRUCTIONS THAT APPEAR ON THE ENCLOSED PROXY CARD(S). If you have any questions about the proposals or the voting instructions, please call us at 877-461-1899. Any proposal submitted to a vote at the Annual Meeting by anyone other than the officers or trustees of the Fund may be voted only in person or by written proxy.

We will admit to the Annual Meeting (1) all shareholders of record of the Fund as of the Record Date, (2) persons holding proof of beneficial ownership at the Record Date such as a letter or account statement from a broker, (3) persons who have been granted proxies, and (4) such other persons that we, in our sole discretion, may elect to admit. ALL PERSONS WISHING TO BE ADMITTED TO THE ANNUAL MEETING MUST PRESENT PHOTO IDENTIFICATION. IF YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CONTACT US AT 877-461-1899.

Unless proxy cards submitted by corporations and partnerships are signed by the appropriate persons as indicated in the voting instructions on the proxy cards, they will not be voted.

By order of the Board of Trustees,

/s/ Claudia A. Brandon

Claudia A. Brandon

Secretary

Dated: March 12, 2007

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to the Fund involved in validating your vote if you fail to sign your proxy card properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card.
2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to the name shown in the registration on the proxy card.
3. Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

REGISTRATION

VALID SIGNATURE

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Corporate Accounts

(1) ABC Corp.	ABC Corp.
(2) ABC Corp.	John Doe, Treasurer
(3) ABC Corp. c/o John Doe, Treasurer	John Doe
(4) ABC Corp. Profit Sharing Plan	John Doe, Trustee

TRUST ACCOUNTS

(1) ABC Trust	Jane B. Doe, Trustee
(2) Jane B. Doe, Trustee u/t/d 12/28/78	Jane B. Doe

CUSTODIAN OR ESTATE ACCOUNTS

(1) John B. Smith, Cust. f/b/o John B. Smith, Jr. UGMA	John B. Smith
(2) John B. Smith	John B. Smith, Jr., Executor

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YOUR VOTE IS IMPORTANT NO MATTER HOW MANY  
SHARES OF THE FUND YOU OWN.  
PLEASE RETURN YOUR PROXY CARD PROMPTLY

If you own both Common Shares and MMP Shares of the Fund, there will be more than one proxy card enclosed. Please fill out and return each proxy card.

Shareholders are invited to attend the Annual Meeting in person. Any shareholder who does not expect to attend the Annual Meeting is urged to review the enclosed materials and follow the instructions that appear on the enclosed proxy card(s).

To avoid additional expense to the Fund of further solicitation, we ask your cooperation in voting your proxy promptly, no matter how large or small your holdings may be.

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LEHMAN BROTHERS

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND

605 THIRD AVENUE  
NEW YORK, NEW YORK 10158-0180

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PROXY STATEMENT

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ANNUAL MEETING OF SHAREHOLDERS  
APRIL 16, 2007

INTRODUCTION

This Proxy Statement is furnished to the shareholders of the Lehman Brothers First Trust Income Opportunity Fund, a Delaware statutory trust (the "Fund"), by the Board of Trustees (the "Board") of the Fund in connection with the solicitation of shareholder votes by proxy to be voted at the Annual Meeting of Shareholders or any adjournments thereof ("Annual Meeting"). The Annual Meeting is expected to be held on April 16, 2007, at 3:30 p.m. Eastern time at 605 Third Avenue, 41st Floor, New York, New York 10158-3698, at the offices of Neuberger Berman, LLC, an affiliate of Neuberger Berman Management Inc. ("NB Management"), the Fund's investment adviser.

The matters to be acted upon at the Annual Meeting are set forth in the accompanying Notice of Annual Meeting. It is expected that the Notice of Annual Meeting, this Proxy Statement and form of proxy first will be mailed to

shareholders on or about March 12, 2007.

If the enclosed proxy card is executed properly and returned, shares represented thereby will be voted at the Annual Meeting in accordance with the instructions on the proxy card. A proxy may nevertheless be revoked at any time prior to its use by written notification received by the Secretary of the Fund, by the execution of a subsequently dated proxy card or by attending the Annual Meeting and voting in person. However, if no instructions are specified on a proxy card, shares will be voted "FOR" the election of each nominee for Trustee and "FOR," "ABSTAIN" or "AGAINST" any other matters acted upon at the Annual Meeting in the discretion of the persons named as proxies.

The close of business on February 21, 2007, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting ("Record Date"). On that date, the Fund had 12,252,971.652 common shares ("Common Shares") and 3,600 Money Market Cumulative Preferred Shares (the "MMP Shares") outstanding and entitled to vote.

Each shareholder will have one vote for each dollar, and a proportionate fraction of a vote for each fraction of a dollar, of the net asset value per share of each share held on the Record Date. On the Record Date, the net asset value of the Common Shares was \$15.37 per share and the MMP Shares were redeemable at \$25,000 per share.

Holder of the Fund's outstanding shares will vote to elect a total of five Trustees: Common Shares and MMP Shares will vote together as a single class to elect four Class II Trustees, while holders of the Fund's outstanding MMP Shares will vote as a single class to elect one Class II Trustee. As to any other business that may properly come before the Annual Meeting or any adjournments thereof, holders of the Common Shares and MMP Shares may vote together as a single class or separately, depending on the requirements of the Investment Company Act of 1940, as amended ("1940 Act"), applicable law governing Delaware statutory business trusts, and the Fund's charter with respect to said item of business.

Solicitation is made primarily by the mailing of this Proxy Statement and the accompanying proxy card(s). Supplementary solicitations may be made by mail, telephone, and electronic transmission or in person by regular employees of NB Management, Lehman Brothers Asset Management LLC ("LBAM LLC"), the Fund's sub-adviser, or affiliates of these entities. Such solicitations may also be made by other authorized representatives of the Fund. All expenses in connection with preparing this Proxy Statement and its enclosures, and additional solicitation expenses including reimbursement of brokerage firms and others for their expenses in forwarding proxy solicitation material to the beneficial owners of shares, will be borne by the Fund.

#### QUORUM; ADJOURNMENT

A quorum of shareholders is necessary to take action at the Annual Meeting. A quorum will exist for the election of the four Class II Trustees to be elected by holders of Common Shares and MMP shares entitled to vote if 25% of all such shares (Common Shares and MMP Shares) outstanding on the Record Date are present in person or by proxy. A quorum will exist for the election of the single Class II Trustee to be elected by holders of the MMP Shares entitled to vote if 25% of all such MMP Shares outstanding on the Record Date are present in person or by proxy. THE FAILURE OF A QUORUM TO BE PRESENT AT THE ANNUAL MEETING WILL NECESSITATE ADJOURNMENT AND WILL SUBJECT THE FUND TO ADDITIONAL EXPENSE.

In the event that a quorum is not present at the Annual Meeting, or for any other reason, the persons named as proxies may propose one or more adjournments of the Annual Meeting to permit further solicitation of proxies. Under the Fund's by-laws (the "By-Laws"), any meeting of shareholders may be adjourned from time to time by: (a) the vote of the majority of the shares represented at that meeting, either in person or by proxy, or (b) in his or her sole discretion by the chair of the meeting. The persons named as proxies will vote those proxies which they are entitled to vote "FOR" the election of any nominee in favor of such an adjournment and will

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vote those proxies required to "WITHHOLD" on all of the nominees against any such adjournment. A shareholder vote may be taken on one or more of the proposals prior to any adjournment if sufficient votes have been received for approval and it is otherwise appropriate.

The Fund expects that broker-dealer firms holding shares of the Fund in "street name" for the benefit of their customers and clients will request the instructions of such customers and clients on how to vote their shares on each proposal at the Annual Meeting. The Fund understands that, under the rules of the New York Stock Exchange ("NYSE") and the American Stock Exchange ("AMEX"), such broker-dealers may grant authority to the proxies designated by the Fund to vote on the election of Trustees for the Fund if no instructions have been received prior to the date specified in the broker-dealer firm's request for voting instructions. Certain broker-dealer firms may exercise discretion over shares held in their names for which no instructions are received by voting such shares in the same proportion as they have voted shares for which they have received instructions.

In tallying shareholder votes, abstentions and "broker non-votes" (i.e., shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or the persons entitled to vote and either (i) the broker or nominee does not have discretionary voting power or (ii) the broker or nominee returns the proxy but expressly declines to vote on a particular matter) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Accordingly, abstentions and broker non-votes effectively will be a vote against any adjournment and but will have no impact on the election of the Class II Trustee Nominees because the required vote is the plurality of votes cast.

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. SHAREHOLDERS ARE THEREFORE URGED TO COMPLETE, SIGN, DATE AND RETURN THE PROXY CARD(S) AS SOON AS POSSIBLE IN THE MANNER DESCRIBED IN THE ENCLOSED PROXY CARD(S).

As of February 21, 2007, the Fund knows of no person who owns beneficially more than 5% of its outstanding Common Shares or MMP Shares. In addition, the Trustees and officers of the Fund, in the aggregate, owned less than 1% of the Fund's outstanding shares as of February 21, 2007.

NB Management and LBAM LLC serve as the Fund's investment adviser and sub-adviser, respectively. In addition, NB Management provides investment management and advisory services to private accounts of institutional and individual clients and to mutual funds, as well as the Neuberger Berman Family of Funds. NB Management is located at 605 Third Avenue, New York, New York 10158-0180. As of December 31, 2006, Neuberger Berman affiliates had

approximately \$126.9 billion in assets under management. NB Management and LBAM LLC are wholly-owned subsidiaries of Lehman Brothers Holdings Inc. ("LBHI"), a publicly held company. Investors Bank and Trust Company ("IBT") currently serves as the Fund's administrator. IBT is located at 200 Clarendon Street, Boston, Massachusetts 02116.

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SHAREHOLDERS OF RECORD OR BENEFICIAL OWNERS AS OF THE RECORD DATE MAY OBTAIN A FREE COPY OF THE ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006, WHICH INCLUDES AUDITED FINANCIAL STATEMENTS FOR THE FUND, BY WRITING NB MANAGEMENT AT 605 THIRD AVENUE, 2ND FLOOR, NEW YORK, NEW YORK 10158-0180, OR BY CALLING TOLL FREE 877-461-1899.

Shareholders may also send communications that they would like to direct to the Fund's Board of Trustees to the attention of Chamaine Williams, Chief Compliance Officer, Neuberger Berman Funds, 605 Third Avenue, 21st Floor, New York, NY, 10158-0180. The Board has directed Ms. Williams to send such communications to the chairperson of the Fund's Ethics and Compliance Committee. Nominee recommendations and shareholder proposals should be directed to the attention of Claudia A. Brandon, Secretary, Neuberger Berman Funds, 605 Third Avenue, 21st Floor, New York, NY, 10158-0180 as described in this Proxy Statement under "Information Regarding the Fund's Process for Nominating Trustee Candidates" and "Shareholder Proposals."

#### ELECTION OF TRUSTEES PROPOSAL

The Fund's Board is divided into three classes (Class I, Class II and Class III). At a meeting held in February 2007, the Fund's Board of Trustees expanded the size of the Board from thirteen (1) to fifteen and appointed Michael M. Knetter as a Class I Trustee and George W. Morriss as a Class II Trustee to fill the vacancies created by the expansion. The terms of office of Class I, Class II and Class III Trustees will expire at the annual meeting of shareholders held in 2009, 2007 and 2008, respectively, and at each third annual meeting of shareholders thereafter. Each Trustee shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. The classification of the Fund's Trustees helps to promote the continuity and stability of the Fund's management and policies because the majority of the Trustees at any given time will have prior experience as Trustees of the Fund. At least two shareholder meetings, instead of one, are required to effect a change in a majority of the Trustees, except in the event of vacancies resulting from removal for cause or other reasons, in which case the remaining Trustees may fill the vacancies so created, to the extent permitted by the 1940 Act.

At the Annual Meeting, four Class II Trustees are to be voted upon by the holders of Common Shares and MMP Shares, voting together as a single class, and one Class II Trustee is to be voted upon by the holders of MMP Shares only, voting separately as a single class. In accordance with the provisions of the 1940 Act and the Fund's By-Laws, under normal circumstances the holders of outstanding MMP Shares are entitled, as a class, and to the exclusion of the holders of Common Shares,

1<sup>[superscript]</sup> Following the death of Barry Hirsch, a Class II Trustee, the

Board determined to reduce the number of Trustees on the Board from 14 to 13 and to reclassify C. Anne Harvey, a Class I Trustee, as a Class II Trustee. Ms. Harvey was reclassified as a Class II Trustee of the Board so that each class of the Board would have as close to the same number of Trustees as possible.

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to elect two Trustees. The holders of outstanding Common Shares and MMP Shares, voting together as a single class, elect the balance of the Trustees. The Class I and III Trustees are not nominees to be considered at the Meeting.

The term of each current Class II Trustee expires in 2007, but each expressed his or her willingness to serve another term as Trustee of the Fund if nominated by the Board.

The following table indicates which shareholders are solicited with respect to each of these Nominees:

NOMINEE	COMMON SHARES	MMP SHARES
John Cannon		X
C. Anne Harvey	X	X
George W. Morriss	X	X
Jack L. Rivkin	X	X
Tom D. Seip	X	X

The Governance and Nominating Committee of the Fund reviewed the qualifications, experience and background of each Trustee. Based upon this review, the Committee determined that nominating the Nominees listed above would be in the best interests of the Fund's shareholders. The Fund's Board believes that the Nominees are well suited for service on the Board due to their knowledge of the financial services sector, their substantial experience in serving as directors or trustees, officers or advisers of public companies and business organizations, including other investment companies, and due to their familiarity with the Fund as a result of their prior service as Trustees.

At a meeting in December 2006, the Board received the recommendations of the Governance and Nominating Committee. After discussion and consideration of, among other things, the backgrounds of the incumbents, the Fund's Board voted to nominate John Cannon, C. Anne Harvey, Jack L. Rivkin and Tom D. Seip for election as Class II Trustees with a term expiring in 2010. Mr. Morriss was not a Trustee in December 2006. Upon recommendation of other Board members, at a February 2007 Board meeting, the Fund's Board voted to nominate Mr. Morriss for election as a Class II Trustee with a term expiring in 2010. The Fund has a policy that at least three-fourths of all Trustees be Independent Fund Trustees. Independent Fund Trustees are those who are not associated with the Fund's investment adviser or sub-adviser or their affiliates, or with any broker-dealer used by the Fund, the investment adviser or the sub-adviser in the past six months.

It is the intention of the persons named in the enclosed proxy card(s) to vote in favor of the election of each Nominee named in this Proxy Statement. Each Nominee has consented to be named in this Proxy Statement and to serve as Trustee if elected. The Fund's Board has no reason to believe that any Nominee



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will become unavailable for election as a Trustee, but if that should occur before the Meeting, the proxies will be voted for such other nominees as the Board may recommend.

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None of the Trustees is related to any other. The following tables set forth certain information regarding each Trustee. Unless otherwise noted, each Trustee has engaged in the principal occupation listed in the following table for five years or more. The business address of each listed person is 605 Third Avenue, New York, New York 10158.

INFORMATION REGARDING NOMINEES  
FOR ELECTION AT 2007 ANNUAL MEETING

NAME, AGE, POSITION, TERM OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
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CLASS II

Independent Fund Trustees

John Cannon (77) Trustee Since April 2006	Consultant. Formerly, Chairman, CDC Investment Advisers (registered investment adviser), 1993 to January 1999; formerly, President and Chief Executive Officer, AMA Investment Advisors, an affiliate of the American Medical Association.	62	Independent Trustee or Director of three series of Oppenheimer Funds: Limited Term New York Municipal Fund, Rochester Fund Municipals, and Oppenheimer Convertible Securities Fund, since 1992.
C. Anne Harvey (69) Trustee Since April 2006	President, C.A. Harvey Associates since October 2001; formerly, Director, AARP, 1978 to December 2001.	62	Formerly, President, Board of Associates to The National Rehabilitation Hospital's Board of Directors, 2001 to 2002; formerly, Member, Individual Investors Advisory Committee

to the New York Stock  
Exchange Board of  
Directors, 1998 to June  
2002.

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NAME, AGE, POSITION, TERM OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
George W. Morriss (59) Trustee Since February 2007	Formerly, Executive Vice President and Chief Financial Officer, People's Bank (a financial services company), 1991 to 2001.	62	Member, Board of Managers, Old Mutual Funds of Hedge Funds (registered hedge fund), since October 2006.
Tom D. Seip (57) Trustee Since April 2006; Lead Independent Trustee Since April 2006	General Partner, Seip Investments LP (a private investment partnership); formerly, President and CEO, Westaff, Inc. (temporary staffing), May 2001 to January 2002; formerly, Senior Executive at the Charles Schwab Corporation, 1983 to 1998, including Chief Executive Officer, Charles Schwab Investment Management, Inc. and Trustee, Schwab Family of Funds and Schwab Investments, 1997 to 1998, and Executive Vice President-Retail Brokerage, Charles Schwab & Co., Inc., 1994 to 1997.	62	Director, H&R Block, Inc. (financial services company) since May 2001; Chairman, Compensation Committee, H&R Block, Inc. since 2006; Director, America One Foundation since 1998; formerly, Chairman, Governance and Nominating Committee, H&R Block, Inc., 2004 to 2006; formerly, Director, Forward Management, Inc. (asset management company), 1999 to 2006; formerly Director, E-Bay Zoological Society, 1999 to 2003; formerly, Director, General Magic (voice recognition software), 2001 to 2002; formerly, Director, E-Finance Corporation (credit decisioning services),

1999 to 2003; formerly, Director, Save-Daily.com (micro investing services), 1999 to 2003.

NAME, AGE, POSITION, TERM OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
Trustee who is an "Interested Person" *			
Jack L. Rivkin * (66) President Since June 2006; Trustee Since April 2006	Executive Vice President and Chief Investment Officer, Neuberger Berman Inc. (holding company) since 2002 and 2003, respectively; Managing Director and Chief Investment Officer, Neuberger Berman since December 2005 and 2003, respectively; formerly, Executive Vice President, Neuberger Berman, December 2002 to 2005; Director and Chairman, NB Management since December 2002; formerly, Executive Vice President, Citigroup Investments, Inc., September 1995 to February 2002; formerly, Executive Vice President, Citigroup Inc., September 1995 to February 2002.	62	Director, Dale Carnegie and Associates, Inc. (private company) since 1998; Director, Solbright, Inc. (private company) since 1998.

INFORMATION REGARDING TRUSTEES  
WHOSE CURRENT TERMS CONTINUE

NAME, AGE, POSITION, TERMS OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
CLASS I			
Independent Fund Trustees			
Faith Colish (71) Trustee Since April 2006	Counsel, Carter Ledyard & Milburn LLP (law firm) since October 2002; formerly, Attorney-at-Law and President, Faith Colish, A Professional Corporation, 1980 to 2002.	62	Formerly, Director (1997 to 2003) and Advisory Director (2003 to 2006), ABA Retirement Funds (formerly, American Bar Retirement Association) (not-for- profit membership corporation).
Michael M. Knetter (46) Trustee Since February 2007	Dean, School of Business, University of Wisconsin - Madison; formerly, Professor of International Economics and Associate Dean, Amos Tuck School of Business - Dartmouth College, 1998 to 2002.	62	Trustee, Northwestern Mutual Series Fund, Inc., since February 2007; Director, Wausau Paper, since 2005; Director, Great Wolf Resorts, since 2004.
Cornelius T. Ryan (75) Trustee Since April 2006	Founding General Partner, Oxford Partners and Oxford Bioscience Partners (venture capital investing) and President, Oxford Venture Corporation since 1981.	62	None.
Peter P. Trapp (62) Trustee Since April 2006	Regional Manager for Mid-Southern Region, Ford Motor Credit Company since September 1997; formerly, President, Ford Life Insurance Company, April 1995 to August 1997.	62	None.

NAME, AGE, POSITION, TERMS OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
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Trustee who is an "Interested Person" \*

Peter E. Sundman * (47) Chief Executive Officer since June 2006; Trustee and Chairman of the Board Since April 2006	Executive Vice President, Neuberger Berman Inc. (holding company) since 1999; Head of Neuberger Berman Inc.'s Mutual Funds Business (since 1999) and Institutional Business (1999 to October 2005); responsible for Managed Accounts Business and intermediary distribution since October 1999; President and Director, NB Management since 1999; Managing Director, Neuberger Berman since 2005; formerly, Executive Vice President, Neuberger Berman, 1999 to December 2005; formerly, Principal, Neuberger Berman, 1997 to 1999; formerly, Senior Vice President, NB Management, 1996 to 1999.	62	Director and Vice President, Neuberger & Berman Agency, Inc. since 2000; formerly, Director, Neuberger Berman Inc. (holding company), October 1999 to March 2003; Trustee, Frost Valley YMCA; Trustee, College of Wooster.
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NAME, AGE, POSITION, TERMS OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
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CLASS III

Independent Fund Trustees

Robert A. Kavesh (79) Trustee Since April 2006	Marcus Nadler Professor Emeritus of Finance and Economics, New York University Stern School of Business; formerly, Executive Secretary-Treasurer, American Finance Association, 1961 to 1979.	62	Formerly, Director, The Caring Community (not-for-profit) from 1997 to 2006; formerly, Director, DEL Laboratories, Inc. (cosmetics and pharmaceuticals), 1978 to 2004; formerly, Director, Apple Bank for Savings, 1979 to 1990; formerly, Director, Western Pacific Industries, Inc., 1972 to 1986 (public company).
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Howard A. Mileaf (70) Trustee Since April 2006	Retired; formerly, Vice President and General Counsel, WHX Corporation (holding company), 1993 to 2001.	62	Director, Webfinancial Corporation (holding company) since December 2002; formerly, Director WHX Corporation (holding company), January 2002 to June 2005; formerly, Director, State Theatre of New Jersey (not-for-profit theater), 2000 to 2005.
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NAME, AGE, POSITION, TERMS OF OFFICE,		NUMBER OF PORTFOLIOS IN FUND COMPLEX	OTHER DIRECTORSHIPS HELD
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AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	OVERSEEN BY TRUSTEE (2)	OUTSIDE FUND COMPLEX BY TRUSTEE
Edward I. O'Brien (78) Trustee Since April 2006	Formerly, Member, Investment Policy Committee, Edward Jones, 1993 to 2001; President, Securities Industry Association ("SIA") (securities industry's representative in government relations and regulatory matters at the federal and state levels), 1974 to 1992; Adviser to SIA, November 1992 to November 1993.	62	Director, Legg Mason, Inc. (financial services holding company) since 1993; formerly, Director, Boston Financial Group (real estate and tax shelters), 1993 to 1999.
William E. Rulon (74) Trustee Since April 2006	Retired; formerly, Senior Vice President, Foodmaker, Inc. (operator and franchiser of restaurants) until January 1997	62	Formerly, Director, Pro-Kids Golf and Learning Academy (teach golf and computer usage to "at risk" children), 1998 to 2006; formerly, Director, Prandium, Inc. (restaurants), March 2001 to July 2002.

NAME, AGE, POSITION, TERMS OF OFFICE, AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE (2)	OTHER DIRECTORSHIPS HELD OUTSIDE FUND COMPLEX BY TRUSTEE
Candace L. Straight (59) Trustee Since April 2006	Private investor and consultant specializing in the insurance industry; formerly, Advisory Director, Securitas Capital LLC (a global private equity investment firm dedicated to making investments in the insurance sector), 1998 to	62	Director, Montpelier Re (reinsurance company) since 2006; Director, National Atlantic Holdings Corporation (property and casualty insurance company) since 2004; Director, The Proformance Insurance Company

December 2003.

(property and casualty insurance company) since March 2004; formerly, Director, Providence Washington Insurance Company (property and casualty insurance company), December 1998 to March 2006; formerly, Director, Summit Global Partners (insurance brokerage firm), 2000 to 2005.

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- (1) The majority of the current Board of the Fund was elected in April 2006 as part of a proposal to streamline the governance structure of the Fund. Prior to April 2006, Michael M. Knetter and George W. Morriss had served as Trustees of the Fund. In February 2007, Dr. Knetter and Mr. Morriss became Board members again. The Board of Trustees shall at times be divided as equally as possible into three classes of Trustees designated Class I, Class II, and Class III. The terms of office of Class I, Class II, and Class III Trustees shall expire at the annual meeting of shareholders held in 2009, 2007, and 2008, respectively, and at each third annual meeting of shareholders thereafter.
- (2) For funds organized in a master-feeder structure, we count the master fund and its associated feeder funds as a single portfolio.
- \* Indicates a Trustee who is an "interested person" within the meaning of the 1940 Act. Mr. Sundman and Mr. Rivkin are interested persons of the Fund by virtue of the fact that they are officers and/or directors of NB Management.

#### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, as amended ("1934 Act"), Section 30(h) of the 1940 Act and Securities and Exchange Commission ("SEC") regulations thereunder, certain of the Fund's officers and trustees, portfolio managers, persons owning more than 10% of the Fund's stock and certain officers and directors/trustees of the Fund's investment adviser and sub-adviser are required to report their transactions in the Fund's stock to the SEC and the NYSE. Based solely on the review by the Fund of the copies of such reports received by it, the Fund believes that, during its fiscal year ended December 31, 2006, Cornelius T. Ryan filed an Initial Statement of Beneficial Ownership of Securities on Form 3 after the required time period due to difficulties associated with filing on EDGAR. The late filing did not relate to any transactions in Fund shares but rather to Mr. Ryan's election as a Trustee in 2006.

#### BOARD OF TRUSTEES AND COMMITTEE MEETINGS

The Fund's Board met six times during the fiscal year ended December 31, 2006. Each Trustee attended at least 75% of the total number of meetings of the Board and of any committee of which he or she was a member during that year.



The Board has established several standing committees to oversee particular aspects of the Fund's management. The standing committees of the Board are described below. The Board does not have a standing compensation committee.

AUDIT COMMITTEE. The purposes of the Fund's Audit Committee are (a) to oversee the accounting and financial reporting processes of the Fund and its internal control over financial reporting and, as the Committee deems appropriate, to inquire into the internal control over financial reporting of certain third-party service providers; (b) to oversee the quality and integrity of the Fund's financial statements and the independent audit thereof; (c) to oversee, or, as appropriate, assist Board oversight of, the Fund's compliance with legal and regulatory requirements that relate to the Fund's accounting and financial reporting, internal control over financial reporting and independent audits; (d) to approve prior to appointment the engagement of the Fund's independent registered public accounting firm and, in connection therewith, to review and evaluate the qualifications, independence and performance of the Fund's independent registered public accounting firm; (e) to act as a liaison between the Fund's independent registered public accounting firm and the full Board; and (f) to prepare an audit committee report as required by Item 306 of Regulation S-K to be included in proxy statements relating to the election of trustees. The independent registered public accounting firm for the Fund shall report directly to the Audit Committee. The Fund has adopted a written charter for its Audit Committee. The charter of the Audit Committees was attached to the Fund's proxy statement dated February 28, 2006 and is available on the Fund's website at [www.lbftincomeopportunity.com](http://www.lbftincomeopportunity.com). The Audit Committee of the Fund has delegated the authority to grant pre-approval of permissible non-audit services and

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all audit, review or attest engagements of the Fund's independent registered public accounting firm to the Chairman of the Audit Committee, and, if the Committee Chair is not available, to any other member of the Audit Committee.

The Audit Committee of the Fund, established in accordance with Section 3(a)(58)(A) of the 1934 Act, is composed entirely of Independent Fund Trustees who are also considered independent under the listing standards applicable to the Fund. Its members are John Cannon, Howard A. Mileaf, Cornelius T. Ryan (Chairman), Tom D. Seip and Peter P. Trapp. Members of the Audit Committee receive additional compensation for serving on this committee. The Report of the Audit Committee relating to the audit of Fund financial statements for the fiscal year ended December 31, 2006 is attached hereto as Appendix A. During the fiscal year ended December 31, 2006, the Committee met six times.

CLOSED-END FUNDS COMMITTEE. The Fund's Closed-End Funds Committee is responsible for consideration and evaluation of issues specific to the Fund. Its members are Edward I. O'Brien (Chairman), Jack L. Rivkin, William E. Rulon, and Tom D. Seip. All members other than Mr. Rivkin are Independent Fund Trustees. During the fiscal year ended December 31, 2006, the Committee met once.

CONTRACT REVIEW COMMITTEE. The Contract Review Committee of the Fund is responsible for overseeing and guiding the process by which the Independent Fund Trustees annually consider whether to continue the Fund's principal contractual arrangements. Its members are Faith Colish (Chairwoman), Robert A. Kavesh, William E. Rulon and Candace L. Straight. All members are Independent Fund Trustees. During the fiscal year ended December 31, 2006, the Committee met two

times.

ETHICS AND COMPLIANCE COMMITTEE. The Ethics and Compliance Committee of the Fund oversees: (a) the Fund's program for compliance with Rule 38a-1 under the 1940 Act and the Fund's implementation and enforcement of its compliance policies and procedures; (b) compliance with the Fund's Code of Ethics (which restricts the personal securities transactions, including transactions in Fund shares, of employees, officers, and Trustees), and (c) the activities of the Fund's Chief Compliance Officer. The Committee shall not assume oversight duties to the extent that such duties have been assigned by the Boards expressly to another Committee of the Boards (such as oversight of internal controls over financial reporting, which has been assigned to the Audit Committee.) The Committee's primary function is oversight. Each investment adviser, sub-adviser, administrator and transfer agent (collectively, "Service Providers") is responsible for its own compliance with the federal securities laws and for devising, implementing, maintaining and updating appropriate policies, procedures and codes of ethics to ensure compliance with applicable laws and regulations. The CCO is responsible for administering the Fund's Compliance Program, including devising and implementing appropriate methods of testing compliance by the Fund and its Service Providers. Its members are John Cannon (Chairman), Faith Colish, C. Anne Harvey and Edward I. O'Brien. All members are Independent Fund Trustees. The Board will receive at least annually

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a report on the compliance programs of the Fund and Service Providers and the required annual reports on the administration of the Code of Ethics and the required annual certifications from the Fund, NB Management and LBAM LLC. During the fiscal year ended December 31, 2006, the Committee met three times.

EXECUTIVE COMMITTEE. The Executive Committee of the Fund is responsible for acting in an emergency when a quorum of the Board of Trustees is not available; the Committee has all the powers of the Board of Trustees when the Board is not in session to the extent permitted by Delaware law. Its members are John Cannon, Howard A. Mileaf, Edward I. O'Brien, Tom D. Seip and Peter E. Sundman (Chairman). All members except for Mr. Sundman are Independent Fund Trustees. During the fiscal year ended December 31, 2006, the Committee did not meet.

GOVERNANCE AND NOMINATING COMMITTEE. The Governance and Nominating Committee of the Fund is responsible for: (a) considering and evaluating the structure, composition and operation of the Board of Trustees and each committee thereof, including the operation of the annual self-evaluation by the Board; (b) evaluating and nominating individuals to serve as Trustees, including as Independent Fund Trustees, as members of committees, as Chair of the Board and as officers of the Fund; and (c) considering and making recommendations relating to the compensation of Independent Fund Trustees and of those officers as to whom the Board is charged with approving compensation. The Committee met to discuss matters relating to the nomination of Class II Trustees with respect to the Fund. Its members are C. Anne Harvey (Chairwoman), Robert A. Kavesh, Howard A. Mileaf and Tom D. Seip. All members are Independent Fund Trustees and are not "interested parties" of the Fund as defined in section 2(a)(19) of the 1940 Act. During the fiscal year ended December 31, 2006, the Committee met four times.

INVESTMENT PERFORMANCE COMMITTEE. The Investment Performance Committee of the Fund is responsible for overseeing and guiding the process by which the Board reviews Fund performance. Its members are Robert A. Kavesh, Edward I. O'Brien, Jack L. Rivkin (Vice Chairman), Cornelius T. Ryan and Peter P. Trapp

(Chairman). All members except for Mr. Rivkin are Independent Fund Trustees. During the fiscal year ended December 31, 2006, the Committee met two times.

PORTFOLIO TRANSACTIONS AND PRICING COMMITTEE. The Portfolio Transactions and Pricing Committee of the Fund (a) monitors the operation of policies and procedures reasonably designed to ensure that each portfolio holding is valued in an appropriate and timely manner, reflecting information known to the manager about current market conditions ("Pricing Procedures"); (b) considers and evaluates, and recommends to the Board when the Committee deems it appropriate, amendments to the Pricing Procedures proposed by management, counsel, the independent registered public accounting firm and others; (c) from time to time, as required or permitted by the Pricing Procedures, establishes or ratifies a method of determining the fair value of portfolio securities for which market prices are not readily available; (d) oversees the program by which the manager seeks to monitor and improve

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the quality of execution for portfolio transactions; and (e) oversees the adequacy and fairness of the arrangements for securities lending; in each case with special emphasis on any situations in which the Fund deals with the manager or any affiliate of the manager as principal or agent.

The members of the Committee are Faith Colish, Jack L. Rivkin (Vice Chairman), William E. Rulon, Cornelius T. Ryan and Candace L. Straight (Chairwoman). All members except for Mr. Rivkin are Independent Fund Trustees. During the fiscal year ended December 31, 2006, the Committee met three times.

#### INFORMATION REGARDING THE FUND'S PROCESS FOR NOMINATING TRUSTEE CANDIDATES

GOVERNANCE AND NOMINATING COMMITTEE CHARTER. A copy of the Governance and Nominating Committee Charter is available to shareholders on the Fund's website at [www.lbftincomeopportunity.com](http://www.lbftincomeopportunity.com).

SHAREHOLDER COMMUNICATIONS. The Fund's Governance and Nominating Committee will consider nominees recommended by shareholders; shareholders may send resumes of recommended persons to the attention of Claudia A. Brandon, Secretary, Neuberger Berman Funds, 605 Third Avenue, 21st Floor, New York, NY, 10158-0180. No nominee recommendation has been received from a shareholder within the past 120 days.

NOMINEE QUALIFICATIONS. The Governance and Nominating Committee will consider nominees recommended by shareholders on the basis of the same criteria used to consider and evaluate candidates recommended by other sources. While there is no formal list of qualifications, the Governance and Nominating Committee considers, among other things, whether prospective nominees have distinguished records in their primary careers, unimpeachable integrity, and substantive knowledge in areas important to the Board's operations, such as background or education in finance, auditing, securities law, the workings of the securities markets, or investment advice. For candidates to serve as independent trustees, independence from the Fund's investment adviser, its affiliates and other principal service providers is critical, as is an independent and questioning mindset. The Committee also considers whether the prospective candidates' workloads would allow them to attend the vast majority of Board meetings, be available for service on Board committees, and devote the additional time and effort necessary to keep up with Board matters and the

rapidly changing regulatory environment in which the Fund operates. Different substantive areas may assume greater or lesser significance at particular times, in light of the Board's present composition and the Committee's (or the Board's) perceptions about future issues and needs.

IDENTIFYING NOMINEES. The Governance and Nominating Committee considers prospective candidates from any reasonable source. The Committee initially evaluates prospective candidates on the basis of their resumes, considered in light of the criteria discussed above. Those prospective candidates that appear likely to be able to fill a significant need of the Board would be contacted by a

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Committee member by telephone to discuss the position; if there appeared to be sufficient interest, an in-person meeting with one or more Committee members would be arranged. If the Committee members, based on the results of these contacts, believed they had identified a viable candidate, they would air the matter with the full group of independent Board members for input. Any request by management to meet with the prospective candidate would be given appropriate consideration. The Fund has not paid a fee to third parties to assist in finding nominees.

TRUSTEE ATTENDANCE AT ANNUAL MEETINGS

The Fund does not have a policy on Trustee attendance at the annual meeting of shareholders. Two Board members attended the 2006 annual meeting of shareholders.

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OWNERSHIP OF SECURITIES

Set forth below is the dollar range of equity securities owned by each Trustee.

NAME OF TRUSTEE	DOLLAR RANGE OF EQUITY SECURITIES OWNED IN THE FUND *	AGGREGATE DOLLAR RANGE OF EQUITY SECURITIES IN ALL REGISTERED INVESTMENT COMPANIES OVERSEEN BY TRUSTEE IN FAMILY OF INVESTMENT COMPANIES *
Independent Fund Trustees		
John Cannon	None	Over \$100,000
Faith Colish	None	Over \$100,000
C. Anne Harvey	None	\$50,001-\$100,000
Robert A. Kavesh	None	\$10,001-\$50,000
Michael M. Knetter	None	None

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Howard A. Mileaf	None	Over \$100,000
George W. Morriss	\$10,001-\$50,000 **	\$10,001-\$50,000
Edward I. O'Brien	None	Over \$100,000
William E. Rulon	None	Over \$100,000
Cornelius T. Ryan	None	\$10,001-\$50,000
Tom D. Seip	None	Over \$100,000
Candace L. Straight	None	Over \$100,000
Peter P. Trapp	None	Over \$100,000

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Trustees who are "Interested Persons"

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Jack L. Rivkin	None	\$1-\$10,000
Peter E. Sundman	None	Over \$100,000

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\* Valuation as of March 5, 2007.

\*\* Mr. Morriss owns 1,363.1 shares of the Fund, constituting less than 1% of the outstanding common shares.

INDEPENDENT FUND TRUSTEES' OWNERSHIP OF SECURITIES

As of January 31, 2006, no Independent Trustee (or his/her immediate family members) owned securities of NB Management or securities in an entity controlling, controlled by or under common control with NB Management (not including registered investment companies).

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OFFICERS OF THE FUND

The following table sets forth certain information regarding the officers of the Fund. Except as otherwise noted, each individual has held the positions shown in the table below since April, 2006. The business address of each listed person is 605 Third Avenue, New York, New York 10158. Officers of the Fund are appointed by the Board and serve at the pleasure of the Board.

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NAME AND AGE	POSITION AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)
Andrew B. Allard (45)	Anti-Money Laundering Compliance Officer since April 2006	Senior Vice President, Neuberger Berman since 2006; Deputy General Counsel, Neuberger Berman since 2004; formerly, Vice President, Neuberger Berman, 2000 to 2006; formerly, Associate General Counsel, Neuberger Berman, 1999 to 2004; Anti-

Money Laundering Compliance Officer, sixteen registered investment companies for which NB Management acts as investment manager and administrator (seven since 2002, three since 2003, four since 2004, one since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).

Michael J. Bradler (37) Assistant Treasurer since April 2006

Vice President, Neuberger Berman since 2006; Employee, NB Management since 1997; Assistant Treasurer, sixteen registered investment companies for which NB Management acts as investment manager and administrator (fifteen since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).

NAME AND AGE	POSITION AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)
Claudia A. Brandon (50)	Secretary since April 2006	Senior Vice President, Neuberger Berman since 2007; Vice President-Mutual Fund Board Relations, NB Management since 2000 and Assistant Secretary since 2004; formerly, Vice President, Neuberger Berman 2002 to 2006 and Employee since 1999; Secretary, sixteen registered investment companies for which NB Management acts as investment manager and administrator (three since 1985, four since 2002, three since 2003, four since 2004, one since 2005 and one since 2006)

and one registered investment company for which NB Management acts as investment adviser (since 2006).

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Robert Conti (50)	Vice President since April 2006	Managing Director, Neuberger Berman since 2007; formerly, Senior Vice President, Neuberger Berman, 2003 to 2006; formerly, Vice President, Neuberger Berman, 1999 to 2003; Senior Vice President, NB Management since 2000; Vice President, sixteen registered investment companies for which NB Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004, one since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).
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NAME AND AGE	POSITION AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)
Brian J. Gaffney (53)	Vice President since April 2006	Managing Director, Neuberger Berman since 1999; Senior Vice President, NB Management since 2000; Vice President, sixteen registered investment companies for which NB Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004, one since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).

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Maxine Gerson (56)	Chief Legal Officer since April 2006 (only for purposes of sections 307 and 406 of the Sarbanes-Oxley Act of 2002)	Senior Vice President, Neuberger Berman since 2002; Deputy General Counsel and Assistant Secretary, Neuberger Berman since 2001; formerly, Vice President, Neuberger Berman, 2001 to 2002; formerly, Associate General Counsel, Neuberger Berman, 2001; formerly, Counsel, Neuberger Berman, 2000; Secretary and General Counsel, NB Management since 2004; Chief Legal Officer (only for purposes of sections 307 and 406 of the Sarbanes-Oxley Act of 2002), sixteen registered investment companies for which NB Management acts as investment manager and administrator (fifteen since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).
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NAME AND AGE	POSITION AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)
Sheila R. James (41)	Assistant Secretary since April 2006	Assistant Vice President, Neuberger Berman since 2007; formerly, Employee since 1999; Assistant Secretary, sixteen registered investment companies for which NB Management acts as investment manager and administrator (seven since 2002, three since 2003, four since 2004, one since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).
Kevin Lyons (51)	Assistant Secretary since April 2006	Employee, Neuberger Berman since 1999; Assistant Secretary, sixteen registered investment



companies for which NB Management acts as investment manager and administrator (ten since 2003, four since 2004, one since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).

NAME AND AGE	POSITION AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)
John M. McGovern (37)	Treasurer and Principal Financial and Accounting Officer since June 2006	Senior Vice President, Neuberger Berman since 2007; formerly, Vice President, Neuberger Berman, 2004 to 2006; Employee, NB Management since 1993; Treasurer and Principal Financial and Accounting Officer, sixteen registered investment companies for which NB Management acts as investment manager and administrator (fifteen since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006); formerly, Assistant Treasurer, fifteen registered investment companies for which NB Management acts as investment manager and administrator, 2002 to 2005.
Frank Rosato (36)	Assistant Treasurer since April 2006	Vice President, Neuberger Berman since 2006; Employee, NB Management since 1995; Assistant Treasurer, sixteen registered investment companies for which NB Management acts as investment manager and administrator (fifteen since 2005 and one since 2006) and one registered investment company

for which NB Management acts as investment adviser (since 2006).

NAME AND AGE	POSITION AND LENGTH OF TIME SERVED (1)	PRINCIPAL OCCUPATION(S)
Frederic B. Soule (60)	Vice President since April 2006	Senior Vice President, Neuberger Berman since 2003; formerly, Vice President, Neuberger Berman, 1999 to 2003; Vice President, sixteen registered investment companies for which NB Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004, one since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2006).
Chamaine Williams (36)	Chief Compliance Officer since 2005	Senior Vice President, Lehman Brothers Inc. since 2007; formerly, Vice President, Lehman Brothers Inc. from 2003 to 2006; Chief Compliance Officer, sixteen registered investment companies for which NB Management acts as investment manager and administrator (fifteen since 2005 and one since 2006) and one registered investment company for which NB Management acts as investment adviser (since 2005); Chief Compliance Officer, Lehman Brothers Asset Management Inc. since 2003; Chief Compliance Officer, Lehman Brothers Alternative Investment Management LLC since 2003; formerly, Vice President, UBS Global Asset Management

(US) Inc. (formerly, Mitchell Hutchins Asset Management, a wholly-owned subsidiary of PaineWebber Inc.), 1997 to 2003.

(1) In April, 2006, the Fund's shareholders elected the current Board as part of a proposal to streamline the governance structure of the Fund. Except for Chamaine Williams, who served as the Chief Compliance Officer since 2005, most officers have served since April 2006 and a few since June 2006.

COMPENSATION OF TRUSTEES AND OFFICERS

The following table sets forth information concerning the compensation of the Fund's Trustees. The Fund does not have any retirement plan for its Trustees. For the fiscal year ended December 31, 2006, the Trustees received the amounts set forth in the following table from the Fund. For the calendar year ended December 31, 2006, the Trustees received the compensation set forth in the following table for serving as Trustees or Directors of investment companies in the "Fund Complex." Each officer and Trustee who is a director, officer or employee of NB Management, LBAM LLC, or any entity controlling, controlled by or under common control with NB Management or LBAM LLC, serves as a Trustee and/or officer without any compensation from the Fund.

TABLE OF COMPENSATION

NAME AND POSITION WITH THE FUND	COMPENSATION FROM THE FUND FOR FISCAL YEAR ENDED 12/31/06	TOTAL COMPENSATION FROM REGISTERED INVESTMENT COMPANIES IN THE NEUBERGER BERMAN FUND COMPLEX PAID TO TRUSTEES FOR CALENDAR YEAR ENDED 12/31/06
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Independent Fund Trustees

John Cannon Trustee	\$1,270	\$109,719
Faith Colish Trustee	\$1,190	\$102,864
C. Anne Harvey Trustee	\$1,190	\$102,864
Robert A. Kavesh Trustee	\$1,190	\$102,864
Michael M. Knetter *	\$6,077	\$ 6,077
Howard A. Mileaf Trustee	\$1,270	\$109,719
George W. Morriss *	\$6,375	\$ 6,375
Edward I. O'Brien		

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Trustee	\$1,190	\$102,864
William E. Rulon		
Trustee	\$1,190	\$102,864
Cornelius T. Ryan		
Trustee	\$1,299	\$113,645

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NAME AND POSITION WITH THE FUND	COMPENSATION FROM THE FUND FOR FISCAL YEAR ENDED 12/31/06	TOTAL COMPENSATION FROM REGISTERED INVESTMENT COMPANIES IN THE NEUBERGER BERMAN FUND COMPLEX PAID TO TRUSTEES FOR CALENDAR YEAR ENDED 12/31/06
Tom D. Seip		
Trustee	\$1,447	\$128,341
Candace L. Straight		
Trustee	\$1,190	\$102,864
Peter P. Trapp		
Trustee	\$1,118	\$102,372

Trustees who are "Interested Persons"

Jack L. Rivkin		
Trustee and President	\$0	\$0
Peter E. Sundman		
Trustee, Chairman of the Board and Chief Executive Officer	\$0	\$0

\* Dr. Knetter and Mr. Morriss were members of the Board from from the Fund's inception through April 2006. They were appointed to the Fund's Board again in February 2007.

VOTE REQUIRED

C. Anne Harvey, George W. Morriss, Jack Rivkin and Tom D. Seip each will be elected by a plurality of the votes cast by the holders of the Fund's outstanding Common Shares and Preferred Shares, voting together. John Cannon will be elected by a plurality of the votes cast by the holders of the Preferred Shares, voting separately from the holders of the Common Shares.

THE BOARD OF TRUSTEES UNANIMOUSLY RECOMMENDS  
THAT YOU VOTE "FOR" EACH NOMINEE.

INFORMATION ON THE FUND'S INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

Ernst & Young LLP ("Ernst & Young") audited the financial statements for the fiscal year ended December 31, 2006 for the Fund. Ernst & Young, 200

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Clarendon Street, Boston, MA 02116, serves as the independent registered public accounting firm for the Fund and provides audit services, tax compliance services and assistance and consultation in connection with the review of the Fund's filings with the SEC. In the opinion of the Audit Committee, the services provided by Ernst & Young are compatible with maintaining the independence of the Fund's independent registered public accounting firm. The Board has selected Ernst & Young as the independent registered public accounting firm for the Fund for the fiscal year ending December 31, 2007. Ernst & Young has served as the Fund's

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independent registered public accounting firm since the Fund's inception. Ernst & Young has informed the Fund that it has no material direct or indirect financial interest in the Fund.

Representatives of Ernst & Young are not expected to be present at the Meeting but have been given the opportunity to make a statement if they so desire and will be available should any matter arise requiring their presence.

AUDIT FEES

The aggregate fees billed by Ernst & Young for the audit of the annual financial statements of the Fund for the fiscal years ended December 31, 2005 and December 31, 2006 and for the review of the financial statements included in the Fund's regulatory filings were as shown in the table below.

FUND	AUDIT FEES BILLED	
	FISCAL YEAR ENDED 12/31/05	FISCAL YEAR ENDED 12/31/06
Lehman Brothers First Trust Income Opportunity Fund	\$34,500	\$34,500

AUDIT-RELATED FEES

The aggregate audit-related fees billed by Ernst & Young for the fiscal years ended December 31, 2005 and December 31, 2006, for performing agreed-upon procedures for the MMP Shares of the Fund were as shown in the table below.

FUND	AUDIT-RELATED FEES BILLED	
	FISCAL YEAR ENDED 12/31/05	FISCAL YEAR ENDED 12/31/06
Lehman Brothers First Trust Income Opportunity Fund	\$6,000	\$6,250

TAX FEES

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The aggregate fees billed by Ernst & Young for the fiscal years ended December 31, 2005 and December 31, 2006, for tax compliance, tax advice, and tax planning were as shown in the table below.

FUND	TAX FEES BILLED	
	FISCAL YEAR ENDED 12/31/05	FISCAL YEAR ENDED 12/31/06
Lehman Brothers First Trust Income Opportunity Fund	\$8,700	\$8,700

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ALL OTHER FEES

Aggregate fees billed by Ernst & Young during the fiscal years ended December 31, 2005 and December 31, 2006 for other services provided to the Fund were as shown in the table below.

FUND	ALL OTHER FEES	
	FISCAL YEAR ENDED 12/31/05	FISCAL YEAR ENDED 12/31/06
Lehman Brothers First Trust Income Opportunity Fund	\$0	\$0

Aggregate fees billed by Ernst & Young during the fiscal years ended December 31, 2005 and December 31, 2006 for non-audit services to the Fund, Lehman Brothers Asset Management Inc. and LBAM LLC were as shown in the table below.

FUND	AGGREGATE NON-AUDIT FEES	
	FISCAL YEAR ENDED 12/31/05	FISCAL YEAR ENDED 12/31/06
Lehman Brothers First Trust Income Opportunity Fund	\$14,700	\$14,950

The Audit Committee has considered these fees and the nature of the services rendered, and has concluded that they are compatible with maintaining the independence of Ernst & Young. The Audit Committee did not approve any of the services described above pursuant to the "de minimis exceptions" set forth in Rule 2-01(c) (7) (i) (C) and Rule 2-01(c) (7) (ii) of Regulation S-X. Ernst & Young did not provide any audit-related services, tax services or other non-audit services to NB Management or LBAM LLC that the Audit Committee was

required to approve pursuant to Rule 2-01(c)(7)(ii) of Regulation S-X.

OTHER MATTERS

No business, other than as set forth above, is expected to come before the Annual Meeting. Should any other matters requiring a vote of shareholders properly come before the Annual Meeting, the persons named in the enclosed proxy will vote thereon in accordance with their best judgment in the interests of the Fund.

SHAREHOLDER PROPOSALS

The Fund's By-laws require shareholders wishing to nominate Trustees or make proposals to be voted on at the Fund's annual meeting to provide notice of the nominations or proposals in writing delivered to the Secretary of the Fund. The Secretary must receive the nomination or proposal not less than 90 days and no more than 120 days in advance of the anniversary of the date of the Fund's proxy statement released to shareholders in connection with the previous year's annual meeting. In order to be considered at the Fund's 2008 annual meeting, shareholder

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nominations and proposals must be received by the Fund no later than December 13, 2007 and no earlier than November 13, 2007 and must satisfy the other requirements of the federal securities laws. Timely submission of a nomination or proposal does not guarantee that such nomination or proposal will be included. The chairperson of the Annual Meeting may refuse to acknowledge a nomination or other proposal by a shareholder that is not made in the manner described above.

NOTICE TO BANKS, BROKER-DEALERS AND VOTING  
TRUSTEES AND THEIR NOMINEES

Please advise the Fund, c/o its Secretary at 605 Third Avenue New York, New York 10158, whether other persons are beneficial owners of shares for which proxies are being solicited and, if so, the number of copies of the Proxy Statement you wish to receive in order to supply copies to such beneficial owners of shares.

By order of the Board of Trustees,

/s/ Claudia A. Brandon

Secretary

Dated: March 12, 2007

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APPENDIX A

AUDIT COMMITTEE REPORT

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND (THE "FUND")

The Audit Committee of the Board of Trustees of the Fund operates pursuant to a Charter, which sets forth the role of the Audit Committee in the Fund's financial reporting process. Pursuant to the Charter, the role of the Audit Committee is to oversee the Fund's accounting and financial reporting processes and the quality and integrity of the Fund's financial statements and the independent audit of those financial statements. The Committee is responsible for, among other things, recommending the initial and ongoing engagement of the auditors and reviewing the scope and results of the Fund's annual audit with the Fund's independent auditors. Fund management is responsible for the preparation, presentation and integrity of the Fund's financial statements and for the procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors for the Fund are responsible for planning and carrying out proper audits and reviews.

The Audit Committee met on February 14, 2007 to review the Fund's audited financial statements for the fiscal year ended December 31, 2006. In performing this oversight function, the Audit Committee has reviewed and discussed the audited financial statements with the Fund's management and their independent auditors, Ernst & Young, LLP ("E&Y"). The Audit Committee has discussed with E&Y the matters required to be discussed by Statement on Auditing Standards No. 61, and has received the written disclosures and the letter from E&Y required by Independence Standards Board Standard No. 1. The Audit Committee also has discussed with E&Y its independence.

The members of the Audit Committee are not employed by the Fund as experts in the fields of auditing or accounting and are not employed by the Fund for accounting, financial management or internal control purposes. Members of the Audit Committee rely without independent verification on the information provided and the representations made to them by management and E&Y.

Based upon this review and related discussions, and subject to the limitation on the role and responsibilities of the Audit Committee set forth above and in the Charter, the Audit Committee recommended to the Board of Trustees that the audited financial statements be included in the Fund's Annual Report to Shareholders for the fiscal year ended December 31, 2006.

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The members of the Audit Committee are listed below. Each has been determined to be independent pursuant to New York Stock Exchange Rule 303.01.

John Cannon  
Howard Mileaf  
Cornelius T. Ryan (Chairman)  
Tom D. Seip  
Peter P. Trapp

February 14, 2007

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[NEUBERGER BERMAN LOGO]

NEUBERGER BERMAN MANAGEMENT INC.

605 Third Avenue 2nd Floor  
New York, New York 10158-0180

www.nb.com

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H0281 03/07

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND  
COMMON SHARES

The undersigned appoints as proxies Robert Conti, Frederic B. Soule and Claudia A. Brandon, and each of them (with power of substitution), to vote all the undersigned's common shares in Lehman Brothers First Trust Income Opportunity Fund (the "Fund") at the Annual Meeting of Shareholders to be held on April 16, 2007, at 3:30 p.m. Eastern Time at the offices of Neuberger Berman LLC, 605 Third Avenue, 41st Floor, New York, New York 10158-3698, and any adjournments thereof ("Annual Meeting"), with all the power the undersigned would have if personally present. Receipt of the Notice of Annual Meeting of Shareholders and Proxy Statement is acknowledged by your execution of this proxy. THIS PROXY IS BEING SOLICITED ON BEHALF OF THE FUND'S BOARD OF TRUSTEES.

The common shares represented by this proxy will be voted as instructed. UNLESS INDICATED TO THE CONTRARY, THIS PROXY SHALL BE DEEMED TO GRANT AUTHORITY TO VOTE "FOR" THE PROPOSAL SPECIFIED ON THE REVERSE SIDE. THIS PROXY ALSO GRANTS DISCRETIONARY POWER TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING.

YOUR VOTE IS IMPORTANT NO MATTER HOW MANY SHARES YOU OWN. PLEASE SIGN AND DATE THIS PROXY BELOW AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

Date: \_\_\_\_\_, 2007

Signature (owner, trustee, custodian, etc.) (PLEASE SIGN IN THE BOX)  
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Please sign exactly as name appears hereon. If shares are held in the name of two or more persons, any may sign. If shares are held by a corporation, partnership, trust, estate or similar account, the name and capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration.

CLB-JH-CMN

YOUR VOTE IS IMPORTANT NO MATTER HOW MANY SHARES YOU OWN.  
PLEASE SIGN AND DATE THE REVERSE SIDE OF THIS PROXY CARD AND RETURN IT PROMPTLY  
IN THE ENCLOSED ENVELOPE.

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

PLEASE FILL IN BOX AS SHOWN USING BLACK OR BLUE INK OR NUMBER 2 PENCIL. PLEASE  
DO NOT USE FINE POINT PENS. [X]

1. To elect four Class II Trustees to serve until the annual meeting of  
shareholders in 2010, or until their successors are elected and qualified:

ALL FUNDS		FOR WITHHOLD	FOR ALL
		ALL	EXCEPT*
(01) C. Anne Harvey	(02) George Morriss	[ ]	[ ]
(03) Jack Rivkin	(04) Tom D. Seip	[ ]	[ ]

\*TO WITHHOLD AUTHORITY TO VOTE FOR ANY NOMINEE(S), MARK THE BOX "FOR ALL EXCEPT" AND WRITE ON THE LINE BELOW THE NUMBER(S) OF THE NOMINEE(S) FOR WHOM YOU DO NOT WANT TO VOTE.

IF YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CALL 1-877-461-1899

PLEASE SIGN ON THE REVERSE SIDE.

CLB-JH-CMN

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LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND  
MONEY MARKET CUMULATIVE PREFERRED SHARES

The undersigned appoints as proxies Robert Conti, Frederic B. Soule and Claudia A. Brandon, and each of them (with power of substitution), to vote all the undersigned's preferred shares in Lehman Brothers First Trust Income Opportunity Fund (the "Fund") at the Annual Meeting of Shareholders to be held on April 16, 2007, at 3:30 p.m. Eastern Time at the offices of Neuberger Berman LLC, 605 Third Avenue, 41st Floor, New York, New York 10158-3698, and any adjournments thereof ("Annual Meeting"), with all the power the undersigned would have if personally present. Receipt of the Notice of Annual Meeting of Shareholders and Proxy Statement is acknowledged by your execution of this proxy. THIS PROXY IS BEING SOLICITED ON BEHALF OF THE FUND'S BOARD OF TRUSTEES.

The preferred shares represented by this proxy will be voted as instructed. UNLESS INDICATED TO THE CONTRARY, THIS PROXY SHALL BE DEEMED TO GRANT AUTHORITY TO VOTE "FOR" THE PROPOSAL SPECIFIED ON THE REVERSE SIDE. THIS PROXY ALSO GRANTS DISCRETIONARY POWER TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING.

YOUR VOTE IS IMPORTANT NO MATTER HOW MANY SHARES YOU OWN. PLEASE SIGN AND DATE THIS PROXY BELOW AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

Date: \_\_\_\_\_, 2007

Signature (owner, trustee, custodian, etc.) (PLEASE SIGN IN THE BOX)

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Please sign exactly as name appears hereon. If shares are held in the name of two or more persons, any may sign. If shares are held by a corporation, partnership, trust, estate or similar account, the name and capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration.

CLB-JH-PRE

YOUR VOTE IS IMPORTANT NO MATTER HOW MANY SHARES YOU OWN.  
PLEASE SIGN AND DATE THE REVERSE SIDE OF THIS PROXY CARD AND RETURN IT PROMPTLY  
IN THE ENCLOSED ENVELOPE.

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

PLEASE FILL IN BOX AS SHOWN USING BLACK OR BLUE INK OR NUMBER 2 PENCIL. PLEASE DO NOT USE FINE POINT PENS. [X]

- 1. To elect five Class II Trustees to serve until the annual meeting of shareholders in 2010, or until their successors are elected and qualified:

ALL FUNDS

FOR WITHHOLD FOR ALL

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ALL ALL EXCEPT\*

(01) C. Anne Harvey (02) George Morriss (05) John Cannon [ ] [ ] [ ]

(03) Jack Rivkin (04) Tom Seip

\*TO WITHHOLD AUTHORITY TO VOTE FOR ANY NOMINEE(S), MARK THE BOX "FOR ALL EXCEPT" AND WRITE ON THE LINE BELOW THE NUMBER(S) OF THE NOMINEE(S) FOR WHOM YOU DO NOT WANT TO VOTE.

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IF YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CALL 1-877-461-1899

PLEASE SIGN ON THE REVERSE SIDE.

CLB-JH-PRE