LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND
Form N-CSR
March 07, 2008

As filed with the Securities and Exchange Commission on March 7, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF

REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21342

LEHMAN BROTHERS FIRST TRUST INCOME OPPORTUNITY FUND

(Exact Name of the Registrant as Specified in Charter)

c/o Neuberger Berman Management Inc.

605 Third Avenue, 2nd Floor

New York, New York 10158-0180

(Address of Principal Executive Offices Zip Code)

Registrant s telephone number, including area code: (212) 476-8800

Peter E. Sundman, Chief Executive Officer

c/o Neuberger Berman Management Inc.

Lehman Brothers First Trust Income Opportunity Fund

605 Third Avenue, 2nd Floor

New York, New York 10158-0180

Arthur C. Delibert, Esq.

Kirkpatrick & Lockhart Preston Gates Ellis LLP

1601 K Street, N.W.

Washington, D.C. 20006-1600

(Names and Addresses of agents for service)

Date of fiscal year end: December 31, 2007

Date of reporting period: December 31, 2007

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Shareholders

Lehman Brothers

First Trust Income

Opportunity Fund

(Ticker Symbol: LBC)

Annual Report

December 31, 2007

Contents

Chairman's Letter

Dear Shareholder:

We are pleased to present to you the annual report for Lehman Brothers First Trust Income Opportunity Fund, covering the 12 months ended December 31, 2007. The report includes portfolio commentary, a listing of the Fund's investments, and its audited financial statements for the reporting period.

The Fund's investment objective is to seek high total return through income plus capital appreciation. The Fund pursues this investment objective by investing primarily in high yield debt securities. Its performance is dependent on several factors, including the rate of interest received on securities held by the Fund, the cost of distributions payable on Money Market Cumulative Preferred Shares issued by the Fund, and the results of interest rate hedges used by the Fund in seeking to manage short-term interest rate costs.

Portfolio Co-Managers Ann H. Benjamin and Thomas P. O'Reilly and their team of seasoned investment professionals at Lehman Brothers Asset Management LLC manage the portfolio. The team takes a proactive approach to high yield asset management, integrating detailed security and industry analysis within the context of a global economic outlook. The portfolio management team and research analysts are industry specialists who carry out independent primary research on companies and industries. In addition to seeking value from specific issue selections, they also implement strategies seeking to take advantage of value opportunities across industry sectors and credit quality tiers.

We thank you for the trust you have placed in us by investing in Lehman Brothers First Trust Income Opportunity Fund. We will continue to do our best to earn it.

Sincerely,

Peter Sundman
Chairman of the Board
Lehman Brothers First Trust
Income Opportunity Fund

First Trust Income Opportunity Fund Portfolio Commentary

Lehman Brothers First Trust Income Opportunity Fund posted a slight decline for the year on a net asset value (NAV) basis versus a modest advance for its benchmark, the Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index.

During 2007, the high yield bond market experienced two very distinct investment environments. The first half of the year was characterized by strong demand and record new issuance totaling $118 billion. Notwithstanding the risk, high yield investors supported highly leveraged deals and were willing to buy securities with structures such as toggle notes, which allow the issuer to make interest payments with cash or additional notes. Investors' appetite for risk was reflected in a narrowing of the credit spread (the difference in yield between comparable maturity U.S. Treasuries and high yield bonds) to around 2.50% in May, near a historical low.

In the second half of 2007, the signs of serious trouble in the mortgage-backed securities market caused investors to become considerably more risk averse and their enthusiasm for high yield bonds waned. In the early summer, several high profile offerings were pulled from the market. New issuance declined to $43.5 billion in the second half of the year and buyers insisted on structures that provided them with more protection. High yield bond prices began sliding in June and retreated through July before stabilizing temporarily. However, in late October and early November, when leading financial companies in the U.S. and abroad began announcing major write-offs resulting from exposure to lower quality mortgage-backed securities, high yield bonds suffered again. Although the market firmed in December, by year-end, the credit spread noted above had increased to 6.09%.

While the last six months have been painful for high yield investors, we believe that the re-pricing of risk and structural improvements in the new issues market are positive for the longer term health of high yield securities. However, even with more reasonably priced and more conservatively structured new issues, we remain quite selective.

Over the course of 2007, security selection and overweights in the Health Care, Services, Energy, Media and Utilities sectors enhanced returns. The fact that we had almost no exposure to Real Estate or Homebuilders and were underweight in Retailers was also a performance plus. Security selection in the Food and Beverage, and Technology sectors detracted from returns. Anticipating more moderate economic growth, we have been gravitating to less economically sensitive industry groups, which historically enjoy more stable cash flows.

The portfolio's weighted average maturity and duration (a standard measure of interest rate risk) fluctuated only modestly over the year. This was a function of security selection rather than an attempt to anticipate interest rate trends. Over the summer, we increased our exposure to BB rated securities (the highest rated high yield securities) at attractive prices. As of year-end, the portfolio's quality distribution stands in line with the benchmark.

High yield fundamentals are directly linked to the relative health of the economy. Recent economic data indicate that the U.S. economy is decelerating and we have reduced our first half 2008 Gross Domestic Product (GDP) growth estimate to 1%, increasing to around 2.5% in the second half as Federal Reserve easing and greater transparency in the credit markets helps reinvigorate the economy. We believe that sluggish economic growth in the first half of the year may cause high yield default rates to increase from the current levels but remain below the long-term average. While credit spreads may continue to widen in the first half of the year, we believe additional widening will be limited to 50-100 basis points.

At the beginning of 2008, the Lehman Brothers U.S. Corporate High Yield Index was yielding 9.64% compared to 4.03% for the 10-year Treasury note. Investors may be somewhat reluctant to move aggressively back into the high yield market until they gain confidence the economy can avoid recession. As a result, we don't expect high yield bonds to get off to a fast

RATING SUMMARY

BBB	4.3%
BB	39.0
B	42.5
CCC	12.8
Not Rated	0.0
Short Term	1.4

start in 2008. However, barring a more serious economic downturn than we anticipate, we believe high yield securities' current yield advantage should begin attracting more favorable investor attention.

Sincerely,

Ann H. Benjamin and Thomas P. O'Reilly
Portfolio Co-Managers

1 YEAR TOTAL RETURN

	Lehman Brothers First Trust Income Opportunity Fund NYSE Ticker Symbol LBC
NAV[1,3]	(0.13%)
Market Price[2,3]	(11.54%)

AVERAGE ANNUAL TOTAL RETURN (LIFE OF FUND AS OF DECEMBER 31, 2007)

	Lehman Brothers First Trust Income Opportunity Fund NYSE Ticker Symbol LBC
NAV[1,3]	9.39%
Market Price[2,3]	5.54%
Inception Date	07/28/2003

Closed-end funds, unlike open-end funds, are not continuously offered. There is an initial public offering and, once issued, common shares of closed-end funds are sold in the open market through a stock exchange.

The composition, industries and holdings of the Fund are subject to change. Investment return will fluctuate. Past performance is not indicative of future results.

Portfolios that invest in bonds and other fixed income securities can provide regular income and have historically been less volatile than most stock portfolios. However, they are subject to risks including credit risk, default on principal or interest payments and interest rate fluctuations. High yield bonds, also known as "junk bonds," are subject to additional risks such as the increased risk of default.

Endnotes

1 Returns based on net asset value (NAV) of the Fund.

2 Returns based on market price of Fund shares on the New York Stock Exchange.

3 Performance for NAV and Market Price assume reinvestment of all dividends and capital gain distributions. Shares of the Fund fluctuate in value. Fund performance changes over time and currently may be different from that shown as of 12/31/07. Past performance is no guarantee of future results. More current unaudited Fund performance information can be obtained by visiting the Fund's website at www.lbftincomeopportunity.com.

Glossary of Indices

The Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index:	The Lehman Brothers U.S. Corporate High Yield 2% Issuer Cap Index is an unmanaged sub-index of the Lehman Brothers U.S. Corporate High Yield Index described below, capped such that no single issuer accounts for more than 2% of the index weight.
The Lehman Brothers U.S. Corporate High Yield Index:	The U.S. Corporate High Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, rated and certain unrated taxable corporate bond market. The index excludes Emerging Markets debt.

Please note that the indices do not take into account any fees and expenses or any tax consequences of investing in the individual securities that they track and that individuals cannot invest directly in any index. Data about the performance of these indices are prepared or obtained by Neuberger Berman Management Inc. and include reinvestment of all dividends and capital gain distributions. The Fund may invest in securities not included in the above-described indices.

Schedule of Investments Lehman Brothers First Trust Income Opportunity Fund

PRINCIPAL AMOUNT		RATING§		MARKET VALUE
		Moody's	S&P	
Corporate Debt Securities (149.2%)				
Aerospace/Defense (2.6%)				
$ 3,705,000	L-3 Communications Corp., Guaranteed Senior Unsecured Subordinated Notes, 7.63%, due 6/15/12	Ba3	BB+	$ 3,792,994
165,000	L-3 Communications Corp., Guaranteed Senior Unsecured Subordinated Notes, 6.13%, due 7/15/13	Ba3	BB+	162,112
340,000	L-3 Communications Corp., Guaranteed Notes, Ser. B, 6.38%, due 10/15/15	Ba3	BB+	334,900
				4,290,006
Airlines (1.8%)				
2,927,591	Continental Airlines, Inc., Pass-Through Certificates, 9.80%, due 4/1/21	Ba1	BB+	**2,971,505**
Apparel/Textiles (0.4%)				
600,000	Levi Strauss & Co., Senior Unsubordinated Notes, 9.75%, due 1/15/15	B2	B+	**598,500**
Auto Loans (18.0%)				
1,610,000	Ford Motor Credit Co., Unsecured Notes, 7.38%, due 10/28/09	B1	B	1,515,406
6,870,000	Ford Motor Credit Co., Senior Unsecured Notes, 9.75%, due 9/15/10	B1	B	6,555,368
3,760,000	Ford Motor Credit Co., Unsecured Notes, 7.38%, due 2/1/11	B1	B	3,367,102
3,875,000	Ford Motor Credit Co., Notes, 7.80%, due 6/1/12	B1	B	3,397,065
15,030,000	General Motors Acceptance Corp., Notes, 6.88%, due 9/15/11	Ba3	BB+	12,858,075
1,715,000	General Motors Acceptance Corp., Unsecured Notes, 7.00%, due 2/1/12	Ba3	BB+	1,455,049
				29,148,065
Auto Parts & Equipment (1.8%)				
1,002,000	Goodyear Tire & Rubber Co., Guaranteed Notes, 8.63%, due 12/1/11	Ba3	B	1,044,585
1,770,000	Goodyear Tire & Rubber Co., Senior Notes, 9.00%, due 7/1/15	Ba3	B	1,876,200
				2,920,785
Beverage (1.2%)				
1,355,000	Constellation Brands, Inc., Guaranteed Notes, 8.38%, due 12/15/14	Ba3	BB-	1,358,388
720,000	Constellation Brands, Inc., Guaranteed Notes, 7.25%, due 9/1/16	Ba3	BB-	675,000
				2,033,388
Chemicals (1.9%)				

1,440,000	Hexion US Finance Corp., Guaranteed Notes, 9.75%, due 11/15/14	B3	B	1,555,200
1,625,000	MacDermid, Inc., Senior Subordinated Notes, 9.50%, due 4/15/17	Caa1	CCC+	1,527,500[ñ]
				3,082,700
Consumer/Commercial/Lease Financing (0.8%)				
2,060,000	Residential Capital LLC, Guaranteed Notes, 7.50%, due 2/22/11	Ba3	BB+	**1,282,350**
Electric Generation (11.9%)				
1,155,000	AES Corp., Senior Secured Notes, 8.75%, due 5/15/13	Ba3	BB+	1,205,531[ñ]
1,100,000	AES Corp., Senior Notes, 7.75%, due 10/15/15	B1	B	1,116,500[ñ]
1,695,000	AES Corp., Senior Notes, 8.00%, due 10/15/17	B1	B	1,733,138[ñ]
4,800,000	Dynegy-Roseton Danskamme, Pass-Through Certificates, Ser. B, 7.67%, due 11/8/16	Ba3	B	4,776,000
510,000	Edison Mission Energy, Senior Unsecured Notes, 7.50%, due 6/15/13	B1	BB-	522,750
5,130,000	Edison Mission Energy, Senior Unsecured Notes, 7.63%, due 5/15/27	B1	BB-	4,822,200
2,635,000	Mirant Americas Generation, Inc., Senior Unsecured Notes, 8.30%, due 5/1/11	B3	B-	2,641,587
2,615,000	NRG Energy, Inc., Guaranteed Notes, 7.38%, due 2/1/16	B1	B	2,549,625
				19,367,331

PRINCIPAL AMOUNT		RATING[§]		MARKET VALUE
		Moody's	S&P	
Electric Integrated (4.4%)				
$ 3,660,000	Energy Future Holdings, Guaranteed Notes, 10.88%, due 11/1/17	B3	CCC+	$ 3,678,300[ñ]
3,430,000	Texas Competitive Electric Holdings LLC, Guaranteed Notes, 10.50%, due 11/1/16	B3	CCC	3,387,125[ñ]
				7,065,425
Electronics (3.3%)				
3,995,000	Freescale Semiconductor, Inc., Guaranteed Notes, 9.13%, due 12/15/14	B2	B-	3,395,750
1,365,000	NXP BV Funding LLC, Secured Notes, 7.88%, due 10/15/14	Ba3	BB-	1,296,750
770,000	NXP BV Funding LLC, Guaranteed Notes, 9.50%, due 10/15/15	B3	B-	705,513
				5,398,013
Energy Exploration & Production (2.6%)				
3,500,000	Chesapeake Energy Corp., Guaranteed Notes, 7.50%, due 9/15/13	Ba3	BB	3,578,750
570,000	Chesapeake Energy Corp., Guaranteed Notes, 6.88%, due 1/15/16	Ba3	BB	564,300
				4,143,050
Environmental (0.8%)				
1,375,000	Allied Waste North America, Inc., Guaranteed Notes, Ser. B, 7.25%, due 3/15/15	B1	BB+	**1,368,125**
Food & Drug Retailers (1.2%)				
1,175,000	Rite Aid Corp., Senior Unsecured Notes, 8.63%, due 3/1/15	Caa1	CCC+	947,344
1,185,000	Rite Aid Corp., Guaranteed Notes, 9.50%, due 6/15/17	Caa1	CCC+	980,587
				1,927,931
Forestry/Paper (0.6%)				
995,000	Bowater, Inc., Debentures, 9.00%, due 8/1/09	B3	B	**965,150**
Gaming (8.2%)				
1,745,000	Chukchansi Economic Development Authority, Senior Notes, 8.00%, due 11/15/13	B2	BB-	1,701,375[ñ]
1,800,000	Fontainebleau Las Vegas Holdings LLC, Second Mortgage, 10.25%, due 6/15/15	Caa1	CCC+	1,561,500[ñ]
1,180,000	Majestic Star LLC, Senior Unsecured Notes, 9.75%, due 1/15/11	Caa2	CCC	802,400
1,605,000	Mashantucket Western Pequot Tribe, Bonds, Ser. A, 8.50%, due 11/15/15	Ba1	BB+	1,613,025[ñ]
820,000	MGM Grand, Inc., Guaranteed Senior Notes, 6.00%, due 10/1/09	Ba2	BB	815,900
1,910,000	Pokagon Gaming Authority, Senior Notes, 10.38%, due 6/15/14	B3	B	2,053,250[ñ]
2,105,000	San Pasqual Casino, Notes, 8.00%, due 9/15/13	B2	BB-	2,073,425[ñ]

	1,745,000	Shingle Springs Tribal Gaming Authority, Senior Notes, 9.38%, due 6/15/15	B3	B	1,692,650[ñ]
	1,065,000	Station Casinos, Inc., Senior Unsecured Notes, 7.75%, due 8/15/16	B2	B	961,162
					13,274,687
Gas Distribution (11.8%)					
	1,380,000	AmeriGas Partners L.P., Senior Notes, 7.13%, due 5/20/16	B1		1,338,600
	1,000,000	El Paso Natural Gas Co., Bonds, 8.38%, due 6/15/32	Baa3	BB	1,171,399
	1,635,000	Ferrellgas Partners L.P., Senior Unsecured Notes, 8.75%, due 6/15/12	B2	B-	1,679,963
	5,290,000	Kinder Morgan, Inc., Senior Unsecured Notes, 6.50%, due 9/1/12	Ba2	BB-	5,258,255
	1,360,000	Kinder Morgan, Inc., Senior Debentures, 7.25%, due 3/1/28	Ba2	BB-	1,276,297
	1,675,000	Regency Energy Partners L.P., Guaranteed Notes, 8.38%, due 12/15/13	B1	B	1,725,250
	810,000	Sabine Pass L.P., Secured Notes, 7.25%, due 11/30/13	Ba3	BB	773,550

See Notes to Schedule of Investments

PRINCIPAL AMOUNT		RATING[§]		MARKET VALUE
		Moody's	S&P	
$ 3,855,000	Sabine Pass L.P., Secured Notes, 7.50%, due 11/30/16	Ba3	BB	$ 3,681,525
2,025,000	Transcontinental Gas Pipe Line, Unsecured Debentures, 7.25%, due 12/1/26	Baa2	BBB-	2,151,562
				19,056,401
Health Services (15.3%)				
655,000	Community Health Systems, Inc., Guaranteed Notes, 8.88%, due 7/15/15	B3	B-	667,281
3,230,000	HCA, Inc., Secured Notes, 9.25%, due 11/15/16	B2	BB-	3,391,500
5,095,000	HCA, Inc., Secured Notes, 9.63%, due 11/15/16	B2	BB-	5,387,963
2,600,000	LVB Acquisition Merger, Inc., Guaranteed Notes, 10.38%, due 10/15/17	B3	B-	2,593,500[ñ]
1,380,000	LVB Acquisition Merger, Inc., Guaranteed Notes, 11.63%, due 10/15/17	Caa1	B-	1,359,300[ñ]
2,206,312	NMH Holdings, Inc., Senior Unsecured Floating Rate Notes, 12.12%, due 3/15/08	Caa2	CCC+	2,129,091[ñµ]
1,200,000	Service Corp. Int'l, Senior Unsecured Notes, 7.38%, due 10/1/14	B1	BB-	1,213,500
3,265,000	Service Corp. Int'l, Senior Unsecured Notes, 7.50%, due 4/1/27	B1	BB-	3,003,800
1,985,000	US Oncology, Inc., Guaranteed Notes, 9.00%, due 8/15/12	B2	CCC+	1,957,706
320,000	Ventas Realty L.P., Senior Notes, 6.63%, due 10/15/14	Ba1	BB+	316,800
140,000	Ventas Realty L.P., Guaranteed Notes, 7.13%, due 6/1/15	Ba1	BB+	141,400
2,015,000	Ventas Realty L.P., Guaranteed Notes, 6.50%, due 6/1/16	Ba1	BB+	1,974,700
695,000	Ventas Realty L.P., Guaranteed Notes, 6.75%, due 4/1/17	Ba1	BB+	688,050
				24,824,591
Investments & Misc. Financial Services (2.3%)				
2,675,000	Cardtronics, Inc., Guaranteed Notes, 9.25%, due 8/15/13	Caa1	B-	2,608,125
1,095,000	Cardtronics, Inc., Senior Subordinated Notes, Ser. B, 9.25%, due 8/15/13	Caa1	B-	1,067,625[ñ]
				3,675,750
Leisure (1.1%)				
1,980,000	Royal Caribbean Cruises, Senior Unsubordinated Notes, 7.50%, due 10/15/27	Ba1	BBB-	**1,805,255**
Media Broadcast (5.5%)				
4,270,000	CMP Susquehanna Corp., Guaranteed Notes, 9.88%, due 5/15/14	Caa1	CCC	3,202,500
1,135,000	Entercom Radio/Capital, Guaranteed Senior Unsecured Notes, 7.63%, due 3/1/14	B1	B	1,100,950
1,270,000	LIN Television Corp., Guaranteed Notes, 6.50%, due 5/15/13	B1	B-	1,195,387
675,000		B1	B-	635,344

		LIN Television Corp., Guaranteed Notes, Ser. B, 6.50%, due 5/15/13			
	2,375,000	Univision Communications, Inc., Guaranteed Notes, 9.75%, due 3/15/15	B3	CCC+	2,164,219[ñ]
	815,000	Young Broadcasting, Inc., Guaranteed Senior Subordinated Notes, 10.00%, due 3/1/11	Caa1	CCC-	636,719
					8,935,119
Media Cable (8.7%)					
	1,193,000	CCH I Holdings LLC, Secured Notes, 11.00%, due 10/1/15	Caa2	CCC	972,295
	3,545,000	Charter Communications Operating LLC, Secured Notes, 8.38%, due 4/30/14	B2	B+	3,429,787[ñ]
	4,310,000	DirecTV Holdings LLC, Senior Notes, 8.38%, due 3/15/13	Ba3	BB-	4,482,400
	1,880,000	EchoStar DBS Corp., Guaranteed Notes, 6.38%, due 10/1/11	Ba3	BB-	1,857,440
	1,415,000	EchoStar DBS Corp., Guaranteed Notes, 7.00%, due 10/1/13	Ba3	BB-	1,429,150
	1,850,000	EchoStar DBS Corp., Guaranteed Notes, 7.13%, due 2/1/16	Ba3	BB-	1,887,000
					14,058,072
Media Diversified (0.9%)					
	1,460,000	Quebecor Media, Inc., Senior Unsecured Notes, 7.75%, due 3/15/16	B2	B	**1,401,600**[ñ]

See Notes to Schedule of Investments

PRINCIPAL AMOUNT		RATING[§] Moody's	S&P	MARKET VALUE
Media Services (1.9%)				
$ 2,170,000	WMG Acquisition Corp., Senior Subordinated Notes, 7.38%, due 4/15/14	B2	B	$ 1,670,900
2,100,000	WMG Holdings Corp., Guaranteed Notes, Step-Up, 0.00%/9.50%, due 12/15/14	B2	B	1,344,000[^^]
				3,014,900
Metals/Mining Excluding Steel (6.7%)				
1,670,000	Aleris Int'l, Inc., Guaranteed Notes, 9.00%, due 12/15/14	B3	B-	1,394,450
2,025,000	Aleris Int'l, Inc., Guaranteed Notes, 10.00%, due 12/15/16	Caa1	B-	1,640,250
2,065,000	Arch Western Finance Corp., Guaranteed Notes, 6.75%, due 7/1/13	B1	BB-	2,003,050
425,000	Freeport-McMoRan Copper & Gold, Senior Unsecured Notes, 8.25%, due 4/1/15	Ba3	BB	450,500
1,500,000	Freeport-McMoRan Copper & Gold, Senior Unsecured Notes, 8.38%, due 4/1/17	Ba3	BB	1,608,750
3,995,000	Massey Energy Co., Guaranteed Notes, 6.88%, due 12/15/13	B2	B+	3,765,287
				10,862,287
Non-Food & Drug Retailers (2.0%)				
970,000	Blockbuster, Inc., Senior Subordinated Notes, 9.00%, due 9/1/12	Caa2	CCC	829,350[È]
660,000	GSC Holdings Corp., Guaranteed Notes, 8.00%, due 10/1/12	Ba3	BB	687,225
1,500,000	Michaels Stores, Inc., Guaranteed Notes, Step-Up, 0.00%/13.00%, due 11/1/16	Caa1	CCC	823,125[È^^]
965,000	Michaels Stores, Inc., Guaranteed Notes, 11.38%, due 11/1/16	Caa1	CCC	885,388[È]
				3,225,088
Packaging (4.8%)				
5,030,000	Ball Corp., Guaranteed Unsecured Notes, 6.88%, due 12/15/12	Ba1	BB	5,105,450
1,260,000	Crown Americas LLC, Guaranteed Notes, 7.75%, due 11/15/15	B1	B	1,297,800
1,525,000	Graham Packaging Co, Inc., Guaranteed Notes, 9.88%, due 10/15/14	Caa1	CCC+	1,403,000
				7,806,250
Printing & Publishing (6.3%)				
3,220,000	Dex Media West LLC, Senior Unsecured Notes, Ser. B, 8.50%, due 8/15/10	Ba3	B	3,264,275
2,105,000	Dex Media West LLC, Guaranteed Notes, Ser. B, 9.88%, due 8/15/13	B1	B	2,189,200
905,000	Idearc, Inc., Guaranteed Notes, 8.00%, due 11/15/16	B2	B+	830,338
1,455,000	R.H. Donnelley Corp., Senior Unsecured Notes, 6.88%, due 1/15/13	B3	B	1,302,225
650,000		B3	B	601,250[ñ]

		R.H. Donnelley Corp., Senior Notes, 8.88%, due 10/15/17			
	2,335,000	Reader's Digest Association, Inc., Senior Subordinated Notes, 9.00%, due 2/15/17	Caa1	CCC+	1,955,562[ñ]
					10,142,850
Railroads (2.1%)					
	660,000	Kansas City Southern Mexico, Senior Notes, 7.38%, due 6/1/14	B2	B+	641,850[ñ]
	2,640,000	TFM SA de C.V., Senior Unsubordinated Notes, 9.38%, due 5/1/12	B2		2,765,400
					3,407,250
Real Estate Dev. & Mgt. (2.1%)					
	1,470,000	American Real Estate Partners L.P., Guaranteed Notes, 7.13%, due 2/15/13	Ba3	BBB-	1,381,800
	2,150,000	American Real Estate Partners L.P., Senior Notes, 8.13%, due 6/1/12	Ba3	BBB-	2,082,813
					3,464,613

PRINCIPAL AMOUNT		RATING[§] Moody's	S&P	MARKET VALUE
Restaurants (0.8%)				
$ 1,435,000	NPC Int'l, Inc., Guaranteed Notes, 9.50%, due 5/1/14	Caa1	B-	**$ 1,284,325**
Software/Services (2.6%)				
4,545,000	First Data Corp., Guaranteed Notes, 9.88%, due 9/24/15	B3	B-	**4,226,850**[ñ]
Steel Producers/Products (2.8%)				
1,720,000	Metals U.S.A. Holdings Corp., Senior Unsecured Floating Rate Notes, 11.23%, due 1/2/08	Caa1	CCC	1,410,400[ñµ]
1,365,000	Steel Dynamics, Inc., Senior Notes, 7.38%, due 11/1/12	Ba2	BB+	1,371,825[ñ]
2,005,000	Tube City IMS Corp., Guaranteed Notes, 9.75%, due 2/1/15	B3	B-	1,804,500
				4,586,725
Support Services (2.1%)				
3,645,000	Knowledge Learning Corp, Inc., Guaranteed Notes, 7.75%, due 2/1/15	B2	B-	**3,471,863**[ñ]
Telecom Integrated/Services (7.1%)				
1,440,000	Dycom Industries, Inc., Guaranteed Notes, 8.13%, due 10/15/15	Ba3	B+	1,425,600
2,200,000	Intelsat Bermuda Ltd., Guaranteed Notes, 9.25%, due 6/15/16	B2	B	2,211,000
395,000	Intelsat Subsidiary Holding Co. Ltd., Guaranteed Notes, 8.63%, due 1/15/15	B2	B	396,975
1,495,000	Nextel Communications, Inc., Guaranteed Notes, Ser. E, 6.88%, due 10/31/13	Baa3	BBB	1,472,757
2,200,000	Nordic Telephone Co. Holdings, Secured Notes, 8.88%, due 5/1/16	B2	B	2,255,000[ñ]
1,620,000	Qwest Corp., Notes, 8.88%, due 3/15/12	Ba1	BBB-	1,733,400
1,910,000	Windstream Corp., Guaranteed Notes, 8.63%, due 8/1/16	Ba3	BB-	2,005,500
				11,500,232
Theaters & Entertainment (0.8%)				
1,230,000	AMC Entertainment, Inc., Guaranteed Notes, Ser. B, 8.63%, due 8/15/12	Ba3	B-	**1,254,600**
	Total Corporate Debt Securities (Cost $250,917,421)			**241,841,632**
NUMBER OF SHARES				
Short-Term Investments (4.1%)				
3,620,331	Neuberger Berman Prime Money Fund Trust Class			3,620,331[@]
3,006,401	Neuberger Berman Securities Lending Quality Fund, LLC			3,006,401
	Total Short-Term Investments (Cost $6,626,732)			**6,626,732**[#]
	Total Investments (153.3%) (Cost $257,544,153)			**248,468,364**[##]
	Cash, receivables and other assets, less liabilities (2.2%)			3,622,889
	Money Market Cumulative Preferred Shares [(55.5%)]			(90,000,000)
	Total Net Assets (100.0%)			**$ 162,091,253**

See Notes to Schedule of Investments

Notes to Schedule of Investments

Investments in debt securities by Lehman Brothers First Trust Income Opportunity Fund (the "Fund") are valued daily by obtaining price quotations from independent pricing services on all securities available in each service's database. For all other debt securities requiring daily quotations, bid price quotations are obtained from principal market makers in those securities. The Fund values all other securities, including securities for which the necessary last sale, asked and/or bid prices are not readily available, by methods the Board of Trustees has approved on the belief that they reflect fair value. Numerous factors may be considered when determining the fair value of a security, including available analyst, media or other reports, trading in futures or ADRs and whether the issuer of the security being fair valued has other securities outstanding. Fair value prices are necessarily estimates, and there is no assurance that such prices will be at or close to the price at which the security is next quoted. Securities with remaining maturities of 60 days or less are valued at amortized cost. This method involves valuing a portfolio security initially at its cost and thereafter assumes a constant amortization to maturity of any discount of premium.

At cost, which approximates market value.

At December 31, 2007, the cost of investments for U.S. federal income tax purposes was $258,103,110. Gross unrealized appreciation of investments was $1,711,773 and gross unrealized depreciation of investments was $11,346,519, resulting in net unrealized depreciation of $9,634,746, based on cost for U.S. federal income tax purposes.

Managed by an affiliate of Neuberger Berman Management Inc. and could be deemed an affiliate of the Fund (seeNotes A & E of Notes to Financial Statements).

@ Neuberger Berman Prime Money Fund ("Prime Money") is also managed by Neuberger Berman Management Inc. and may be considered an affiliate since it has the same officers, Board members, and investment manager as the Fund and because, at times, the Fund may own 5% or more of the outstanding voting securities of Prime Money (see Notes A & E of Notes to Financial Statements).

ñ Restricted security subject to restrictions on resale under federal securities laws. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers under Rule 144A under the Securities Act of 1933, as amended, and have been deemed by the investment manager to be liquid. At December 31, 2007, these securities amounted to approximately $53,423,041 or 33.0% of net assets applicable to common shareholders.

^^ Denotes a step-up bond: a zero coupon bond that converts to a fixed rate of interest at a designated future date.

µ Floating rate securities are securities whose yields vary with a designated market index or market rate. These securities are shown at their current rates as of December 31, 2007.

È All or a portion of this security is on loan (see Note A of Notes to Financial Statements).

§ Credit ratings are unaudited.

See Notes to Financial Statements 11

Statement of Assets and Liabilities

		Lehman Brothers First Trust Income Opportunity Fund
		December 31, 2007
Assets		
Investments in securities, at market value* (Notes A & E) see Schedule of Investments:		
Unaffiliated issuers	$	241,841,632
Affiliated issuers		6,626,732
		248,468,364
Dividends and interest receivable		4,499,334
Receivable for securities sold		2,687,954
Receivable for securities lending income (Note A)		3,907
Prepaid expenses and other assets		4,212
Total Assets		255,663,771
Liabilities		
Payable for collateral on securities loaned (Note A)		3,006,401
Distributions payable preferred shares		292,792
Distributions payable common shares		51,684
Payable to investment manager net (Notes A & B)		130,055
Payable to administrator (Note B)		10,879
Payable for securities lending fees (Note A)		293
Accrued expenses and other payables		80,414
Total Liabilities		3,572,518
Money Market Cumulative Preferred Shares (3,600 shares issued and outstanding) at liquidation value		90,000,000
Net Assets applicable to Common Shareholders at value	$	162,091,253
Net Assets applicable to Common Shareholders consist of:		
Paid-in capital common shares	$	173,930,043
Distributions in excess of net investment income		(296,685)
Accumulated net realized gains (losses) on investments		(2,466,316)
Net unrealized appreciation (depreciation) in value of investments		(9,075,789)
Net Assets applicable to Common Shareholders at value	$	162,091,253
Common Shares Outstanding, no par value; unlimited number of shares authorized		12,254,585
Net Asset Value Per Common Share Outstanding	$	13.23
Securities on loan, at market value	$	2,873,169
***Cost of Investments:**		
Unaffiliated issuers	$	250,917,421
Affiliated issuers		6,626,732
Total cost of investments	$	257,544,153

See Notes to Financial Statements

Statement of Operations

	Lehman Brothers First Trust Income Opportunity Fund For the Year Ended December 31, 2007
Investment Income:	
Income (Note A):	
Interest income unaffiliated issuers	$ 22,615,956
Income from investments in affiliated issuers (Note E)	388,720
Income from securities loaned net (Note E)	4,074
Foreign taxes withheld	(503)
Total income	$ 23,008,247
Expenses:	
Investment management fees (Notes A & B)	1,620,979
Administration fees (Note B)	103,999
Investor service fees (Note B)	135,082
Stock transfer agent fees	21,475
Auction agent fees (Note B)	224,603
Audit fees	38,650
Basic maintenance expense (Note B)	20,833
Custodian fees and other service fees (Note B)	152,980
Insurance expense	9,246
Legal fees	141,119
Shareholder reports	66,490
Stock exchange listing fees	16,318
Directors' fees and expenses	25,999
Miscellaneous	28,694
Total expenses	2,606,467
Investment management fees waived (Notes A & B)	(6,095)
Expenses reduced by custodian fee expense offset arrangement (Note B)	(3,639)
Total net expenses	2,596,733
Net investment income (loss)	$ 20,411,514
Realized and Unrealized Gain (Loss) on Investments (Note A)	
Net realized gain (loss) on:	
Sales of investment securities of unaffiliated issuers	2,080,445
Interest rate swap contracts	396,141
Change in net unrealized appreciation (depreciation) in value of:	
Unaffiliated investment securities	(18,319,687)
Interest rate swap contracts	(514,457)
Net gain (loss) on investments	(16,357,558)
Distributions to Preferred Shareholders	(5,085,940)
Net increase (decrease) in net assets applicable to Common Shareholders resulting from operations	$ (1,031,984)

See Notes to Financial Statements

Statement of Changes in Net Assets

	Lehman Brothers First Trust Income Opportunity Fund	
	Year Ended December 31, 2007	**Year Ended December 31, 2006**
Increase (Decrease) in Net Assets Applicable to Common Shareholders:		
From Operations:		
Net investment income (loss)	$ 20,411,514	$ 20,166,158
Net realized gain (loss) on investments	2,476,586	2,693,328
Change in net unrealized appreciation (depreciation) of investments	(18,834,144)	4,853,489
Distributions to Preferred Shareholders From (Note A):		
Net investment income	(4,935,470)	(4,487,200)
Net realized gain on investments	(150,470)	
Total distributions to preferred shareholders	(5,085,940)	(4,487,200)
Net increase (decrease) in net assets applicable to common shareholders resulting from operations	(1,031,984)	23,225,775
Distributions to Common Shareholders From (Note A):		
Net investment income	(20,709,303)	(16,566,992)
Net realized gain on investments	(589,446)	
Total distributions to common shareholders	(21,298,749)	(16,566,992)
From Capital Share Transactions (Note D):		
Proceeds from reinvestment of dividends	32,614	72,014
Net Increase (Decrease) in Net Assets Applicable to Common Shareholders	(22,298,119)	6,730,797
Net Assets Applicable to Common Shareholders:		
Beginning of year	184,389,372	177,658,575
End of year	$ 162,091,253	$ 184,389,372
Undistributed net investment income (loss) at end of year	$	$ 248,326
Distributions in excess of net investment income at end of year	$ (296,685)	$

See Notes to Financial Statements

Notes to Financial Statements Lehman Brothers First Trust Income Opportunity Fund

Note A Summary of Significant Accounting Policies:

1 General: Lehman Brothers First Trust Income Opportunity Fund (the "Fund") was organized as a Delaware statutory trust on April 8, 2003, and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified, closed-end management investment company. Prior to February 2007, Lehman Brothers Asset Management Inc. was investment adviser to the Fund. Effective February 2007, Neuberger Berman Management Inc. ("Management") became the investment adviser. Lehman Brothers Asset Management LLC ("LBAM LLC") is the sub-adviser to the Fund. The Fund's common shares are listed on the New York Stock Exchange under the symbol LBC.

The Fund's investment objective is to seek high total return (income plus capital appreciation). The Fund pursues its investment objective by investing its assets primarily in high yield debt securities.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires Management to make estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates.

2 Portfolio valuation: Investment securities are valued as indicated in the notes following the Schedule of Investments.

3 Securities transactions and investment income: Security transactions are recorded on trade date for financial reporting purposes. Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium, where applicable, and accretion of discount on securities (adjusted for original issue discount, where applicable) is recorded on the accrual basis. Realized gains and losses from security transactions are recorded on the basis of identified cost and stated separately in the Statement of Operations.

4 Income tax information: It is the policy of the Fund to continue to qualify as a regulated investment company by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its earnings to its shareholders. Therefore, no federal income or excise tax provision is required.

In accordance with Securities and Exchange Commission guidance, the Fund implemented the provisions of Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes,* on June 29, 2007. The Fund has reviewed the tax positions for each of the three open tax years as of December 31, 2007 and has determined that the implementation of FIN 48 did not have a material impact on the Fund's financial statements.

Income distributions and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund as a whole.

As determined on December 31, 2007, permanent differences resulting primarily from different book and tax accounting for paydown gains and losses on mortgage-backed securities, income recognized on interest rate swaps, the character of distributions paid, and amortization of bond premium were reclassified at fiscal year-end. These reclassifications had no effect on net income, net asset value applicable to common shareholders or net asset value per common share of the Fund.

The tax character of distributions paid during the years ended December 31, 2007 and December 31, 2006 was as follows:

Distributions Paid From:							
Ordinary Income		Long-Term Capital Gain		Tax Return of Capital		Total	
2007	2006	2007	2006	2007	2006	2007	2006
$ 21,374,313	$ 21,054,192	$ 5,010,376	$	$	$	$ 26,384,689	$ 21,054,192

As of December 31, 2007, the components of distributable earnings (accumulated losses) on a U.S. federal income tax basis were as follows:

Undistributed Ordinary Income	Undistributed Long-Term Gain	Unrealized Appreciation (Depreciation)	Loss Carryforwards and Deferrals	Total
$ 47,790	$	$ (9,634,747)	$ (1,907,357)	$ (11,494,314)

The difference between book basis and tax basis distributable earnings is attributable primarily to the timing differences of wash sales, post-October losses, and amortization of bond premium.

Under current tax law, certain net capital and net foreign currency losses realized after October 31 within the taxable year may be deferred and treated as occurring on the first day of the following tax year. For the year ended December 31, 2007, the Fund elected to defer $1,907,357 of net capital losses arising between November 1, 2007 and December 31, 2007.

5 Foreign taxes: Foreign taxes withheld represent amounts withheld by foreign tax authorities net of refunds recoverable.

6 Distributions to shareholders: The Fund earns income, net of expenses, daily on its investments. The Fund intends to make monthly distributions of net investment income to common shareholders, after payments of any distributions on outstanding Money Market Cumulative Preferred Shares ("MMP"). There is no assurance that the Fund will always be able to pay distributions of a particular size, or that distributions will consist solely of net investment income and realized capital gains. The composition of the Fund's distributions for the year ended December 31, 2007 will be reported to Fund shareholders on IRS Form 1099DIV. The Fund may pay additional distributions to avoid excise tax or to satisfy the requirements of Subchapter M of the Internal Revenue Code. Distributions to common shareholders are recorded on the ex-date. Net realized capital gains, if any, will be offset to the extent of any available capital loss carryforwards. Distributions to preferred shareholders are accrued and determined as described in note A-7.

On January 11, 2008, the Fund declared three monthly distributions to common shareholders in the amount of $0.11 per share per month, payable after the close of the reporting period, on January 31, 2008, February 29, 2008 and March 31, 2008, respectively, to shareholders of record on January 24, 2008, February 22, 2008 and March 24, 2008, respectively.

7 Expense allocation: Certain expenses are applicable to multiple funds. Expenses directly attributable to the Fund are charged to the Fund. Expenses borne by the complex of related investment companies, which includes open-end and closed-end investment companies for which Management serves as investment manager, that are not directly attributed to the Fund are allocated among the Fund and the other investment companies in the complex or series thereof on the basis of relative net assets, except where a more appropriate allocation of expenses to each investment company in the complex or series thereof can otherwise be made fairly.

8 Money market cumulative preferred shares: The Fund is authorized to issue 3,750 MMP, each without par value. On October 22, 2003, the Fund issued 3,600 MMP with proceeds of $90,000,000 in a public offering. The underwriting commissions and offering costs of $1,236,545 were incurred in connection with the offering and were charged directly to paid-in capital of the common shares. Distributions to preferred shareholders are cumulative at a rate which is generally reset every twenty-eight days based on the results of an auction. The Fund pays commissions to certain broker-dealers at the end of each auction at an annual rate of 0.25% for a regular distribution period and at a rate agreed to by the Fund and the broker-dealers for a special distribution period. For the year ended December 31, 2007, Lehman Government Securities, Inc., an affiliate of Management, earned $225,000 in commissions.

Distributions to preferred shareholders are recorded daily and are payable at the end of each distribution period. Each distribution payment period for the MMP is generally twenty-eight days. For the year ended December 31, 2007, the distribution rates for MMP ranged from 5.24% to 6.80%. The distribution rate for MMP on December 31, 2007 was 6.25%. In addition, at least annually, the Fund intends to distribute net realized capital gains, if any.

The MMP are redeemable at the option of the Fund at a redemption price equal to $25,000 per share, plus accumulated and unpaid distributions, on any distribution payment date. The MMP are also subject to mandatory redemption at a redemption price equal to $25,000 per share, plus accumulated and unpaid distributions, if the Fund defaults on its asset maintenance requirements with respect to the MMP and fails to cure such a default within the time permitted. If the distributions on the MMP shall remain unpaid in an amount equal to two full years' distributions, the holders of the MMP, as a class, have the right to elect a majority of the Board of Trustees. In general, the holders of the MMP and the common shares 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, and vote together as a single class, except that the holders of the MMP, as a separate class, have the right to elect at least two members of the Board of Trustees and to vote under certain other circumstances specified in the Fund's Amended By-Laws. The Fund is required to maintain certain asset coverage with respect to the MMP as defined in the Fund's Amended By-Laws and the 1940 Act.

9 Interest rate swaps: The Fund may enter into interest rate swap transactions, with institutions that Management has determined are creditworthy, to reduce the risk that an increase in short-term interest rates could reduce common share net earnings as a result of leverage. Under the terms of the interest rate swap contracts, the Fund agrees to pay the swap counter party a fixed-rate payment in exchange for the counter party's paying the Fund a variable-rate payment that is intended to approximate all or a portion of the Fund's variable-rate payment obligation on the Fund's MMP. The fixed-rate and variable-rate payment flows are netted against each other, with the difference being paid by on e party to the other on a monthly basis. The Fund segregates cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked to market daily.

Risks may arise if the counter party to a swap contract fails to comply with the terms of its contract. The loss incurred by the failure of a counter party is generally limited to the net interest payment to be received by the Fund and/or the termination value at the end of the contract. Additionally, risks may arise if there is no liquid market for these agreements or from movements in interest rates unanticipated by Management.

Periodic expected interim net interest payments or receipts on the swaps are recorded as an adjustment to unrealized gains/losses, along with the fair value of the future periodic payment streams on the swaps. The unrealized gains/losses associated with the periodic interim net interest payment are reclassified to realized gains/losses in conjunction with the actual net receipt or payment of such amounts. The reclassifications do not impact the Fund's total net assets applicable to common shareholders or its total net increase (decrease) in net assets applicable to common shareholders resulting from operations. At December 31, 2007, the Fund had no outstanding interest rate swap contracts.

10 Security lending: A third party, eSecLending, assists the Fund in conducting a bidding process to identify agents/principals that would pay a guaranteed amount to the Fund in consideration of the Fund entering into an exclusive securities lending arrangement.

Through a bidding process in October 2007, and in accordance with an Exemptive Order issued by the Securities and Exchange Commission, the Fund selected Neuberger Berman, LLC ("Neuberger"), an affiliate of the Fund, to be its exclusive lending agent for a specified period. Under the agreement entered into between the Fund and Neuberger, Neuberger pays a guaranteed amount to the Fund.

Under the securities lending arrangement, the Fund receives cash collateral at the beginning of each transaction equal to at least 102% of the prior day's market value of the loaned securities (105% in the case of international securities). The Fund may invest all the cash collateral in Neuberger Berman Securities Lending Quality Fund, LLC ("Quality Fund"), a fund managed by LBAM LLC, an affiliate of Management.

Net income from the lending program represents the guaranteed amount plus income earned on the cash collateral invested in Quality Fund or in other investments, less cash collateral fees and other expenses associated with the loans. For the year ended December 31, 2007, the Fund received net income under the securities lending arrangement of $4,074, which is reflected in the Statement of Operations under the caption "Income from securities loaned net." For the year ended December 31, 2007, "Income from securities loaned net" consisted of $4,404 in income earned on cash collateral and guaranteed amounts (including $0 of interest income earned from the Quality Fund and $4,404 in guaranteed amounts received from Neuberger), less fees and expenses paid of $330 (including $0 retained by Neuberger).

11 Repurchase agreements: The Fund may enter into repurchase agreements with institutions that LBAM LLC has determined are creditworthy. Each repurchase agreement is recorded at cost. The Fund requires that the securities purchased in a repurchase agreement be transferred to the custodian in a manner sufficient to enable the Fund to assert a perfected security interest in those securities in the event of a default under the repurchase agreement. The Fund monitors, on a daily basis, the value of the securities transferred to ensure that their value, including accrued interest, is greater than amounts owed to the Fund under each such repurchase agreement.

12 Reverse repurchase agreements: The Fund may enter into reverse repurchase agreements with institutions deemed creditworthy by Management. A reverse repurchase agreement involves the sale of a security by the Fund, with an agreement to repurchase the same or substantially similar security at an agreed upon price and date. Securities purchased subject to repurchase agreements must have an aggregate market value greater than or equal to the repurchase price plus accrued interest at all times. Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities that the Fund is obligated to repurchase. There were no reverse repurchase agreements outstanding at December 31, 2007.

13 Transactions with other funds managed by Neuberger Berman Management Inc.: Pursuant to an exemptive rule, the Fund may invest in a money market fund managed by Management or an affiliate. The Fund invests in Neuberger Berman Prime Money Fund ("Prime Money"), as approved by the Board. Prime Money seeks to provide the highest available current income consistent with safety and liquidity. For any cash that the Fund invests in Prime Money, Management waives a portion of its management fee equal to the management fee it receives from Prime Money on those assets (the "Arrangement"). For the year ended December 31, 2007, management fees waived under this Arrangement amounted to $6,095 and are reflected in the Statement of Operations under the caption "Investment management fees waived." For the year ended December 31, 2007, income earned under this Arrangement amounted to $388,720 and is reflected in the Statement of Operations under the caption "Income from investments in affiliated issuers."

14 Concentration of credit risk: The Fund will normally invest at least 80% of its Managed Assets (as defined in Note B) in investments offering high current income, which generally will be in the lower rating categories of recognized rating agencies. These investments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and will generally involve more credit risk than securities in the higher rating categories. In addition, the trading market for high yield investments may be relatively less liquid than the market for higher-rated investments.

Due to the inherent volatility and illiquidity of the high yield securities in which the Fund invests and the real or perceived difficulty of issuers of those high yield securities to meet their payment obligations during economic downturns or because of negative business developments relating to the issuer or its industry in general, the value and/or price of the Fund's shares may fluctuate more than would be the case if the Fund did not concentrate in high yield securities.

15 Risk associated with the use of leverage: The Fund's use of leverage through the issuance of preferred shares and borrowings, as well as the economic leverage inherent in certain derivatives, including credit default swaps, creates risks for holders of common shares. There is no assurance that the Fund's leveraging strategies will be successful. If the Fund issues preferred shares or borrows money to make additional investments and the income and capital appreciation from those investments exceed the distributions payable on the preferred shares or the costs of borrowing, the Fund's investment return will be greater than if leverage had not been used. However, if the distributions payable on the preferred shares or the costs of borrowing exceed the income and capital appreciation from the additional investments, the Fund would lose money and its investment return will be lower than if leverage had not been used. Leverage creates risk which may adversely affect the return for holders of common shares, including:

(a) the likelihood of greater volatility of net asset value and market price of the Fund's common shares;

(b) the possibility either that common share income will fall if the preferred share distribution rate rises or the Fund's borrowing costs increase, or that common share income will fluctuate because of changes in the preferred share distribution rates or borrowing costs.

16 Indemnifications: Like many other companies, the Fund's organizational documents provide that its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, both in some of its principal service contracts and in the normal course of its business, the Fund enters into contracts that provide indemnifications to other parties for certain types of losses or liabilities. The Fund's maximum exposure under these arrangements is unknown as this could involve future claims against the Fund.

Note B Management Fees, Administration Fees, Distribution Arrangements, and Other Transactions with Affiliates:

The Fund pays all expenses incurred in connection with the operations of the Fund. These expenses, among others, include custodian and fund accounting and administrative fees, legal and audit fees, fees and expenses of the Trustees who are not "interested persons" within the meaning of the 1940 Act ("Independent Fund Trustees"), and printing expenses.

The Fund pays Management a monthly fee computed at an annual rate of 0.60% of the Fund's average daily "Managed Assets" (net assets, including assets attributable to any outstanding preferred shares, plus the aggregate principal amount of any borrowings). Management is responsible for developing, implementing and supervising the Fund's investment program and providing certain administrative services to the Fund. Management has retained LBAM LLC to serve as the sub-adviser of the Fund and to manage the Fund's investment portfolio. Management compensates LBAM LLC for its services as sub-adviser. Management pays LBAM LLC a monthly sub-advisory fee calculated at the following annual percentage rates of the Fund's average daily Managed Assets: 0.55% on the Fund's first $25 million of Managed Assets, 0.45% on the next $25 million of Managed Assets, 0.35% on the next $50 million of Managed Assets, and 0.30% on Managed Asset s that are in excess of $100 million. Management and LBAM LLC are wholly owned subsidiaries of Lehman Brothers Holdings Inc., a publicly traded corporation.

First Trust Portfolios L.P. ("First Trust") serves as the Fund's distribution and marketing agent, and investor servicing agent. As the Fund's distribution and marketing agent, First Trust provides certain distribution and marketing services for the Fund's common shares including preparing marketing materials and presentations, developing contacts with brokers whose clients may have an interest in acquiring Fund shares and replying to information requests from prospective investors. In consideration for these services, First Trust receives a fee paid by Management.

First Trust, as the investor servicing agent, developed and maintains a website for the Fund, assists in the dissemination of the Fund's net asset value and market price, provides ongoing shareholder and account maintenance services, replies to information requests from shareholders and aids in secondary market support. In consideration for these services, the Fund pays First Trust a monthly fee computed at the annual rate of 0.05% of the Fund's average daily Managed Assets. For the year ended December 31, 2007, the Fund paid First Trust, as the investor servicing agent, a fee equal to $135,082.

The Fund pays no compensation to its officers or to its trustees who are interested Trustees of Management or its affiliates.

In order to satisfy rating agencies' requirements, the Fund is required to provide each rating agency a report on a monthly basis verifying that the Fund is maintaining eligible assets having a discounted value equal to or greater than the MMP Basic Maintenance Amount, which is the minimum level set by each rating agency as one of the conditions to maintain the AAA/Aaa rating on the MMP. "Discounted value" refers to the fact that the rating agencies require the Fund, in performing this calculation, to discount portfolio securities below their face value, at rates determined by the rating agencies. Prior to March 23, 2007, the Fund paid Investors Bank & Trust Company ("Investors Bank") for the preparation of this report. Effective March 23, 2007, the Fund pays State Street Bank & Trust Company ("State Street") for the preparation of this report, which is reflected in the Statement of Operations under the caption "Basic maintenance expense."

Effective March 23, 2007, State Street serves as the Fund's custodian, and effective April 9, 2007, The Bank of New York serves as the Fund's transfer agent, registrar, and dividend paying agent. Prior thereto, Investors Bank served as the Fund's custodian and administrator and as transfer agent, registrar and dividend paying agent for the common shares. For the year ended December 31, 2007, the Fund paid Investors Bank $73,906 for these services, which is reflected in the Statement of Operations under the caption "Custodian fee and other service fees."

Effective March 23, 2007, the Fund retains Management as its administrator under an Administration Agreement. The Fund pays Management an administration fee at the annual rate of 0.05% of its average daily Managed Assets under this agreement. Additionally, Management retains State Street as its sub-administrator under a Sub-Administration Agreement. Management pays State Street a fee for all services received under the agreement.

Effective March 23, 2007, the Fund has an expense offset arrangement in connection with its custodian contract. For the year ended December 31, 2007, the impact of this arrangement was a reduction of expenses of $3,639.

Note C Securities Transactions:

For the year ended December 31, 2007, there were purchases and sales of investments (excluding short-term securities and interest rate swap contracts) of $348,610,508 and $332,419,592, respectively.

Note D Capital:

At December 31, 2007, the common shares outstanding and the common shares of the Fund owned by Neuberger were as follows:

Common Shares Outstanding	Common Shares Owned by Neuberger
12,254,585	

The Fund's Declaration of Trust authorizes the Trustees to issue an unlimited number of common shares for the Fund, each without par value. Transactions in common shares for the years ended December 31, 2007 and December 31, 2006 were as follows:

Reinvestment of Dividends and Distributions		Net Increase in Common Shares Outstanding	
2007	2006	2007	2006
2,143	4,904	2,143	4,904

Note E Investments In Affiliates:

Name of Issuer	Balance of Shares Held December 31, 2006	Gross Purchases and Additions	Gross Sales and Reductions	Balance of Shares Held December 31, 2007	Value December 31, 2007	Income from Investments in Affiliated Issuers Included in Total Income
Neuberger Berman Prime Money Fund Trust Class*		154,308,818	150,688,487	3,620,331	$ 3,620,331	$ 388,720
Neuberger Berman Securities Lending Quality Fund, LLC**		5,115,201	2,108,800	3,006,401	3,006,401	
Total					**$ 6,626,732**	**$ 388,720**

* Prime Money is also managed by Management and may be considered an affiliate since it has the same officers, Board members, and investment manager as the Fund and because, at times, the Fund may own 5% or more of the outstanding voting securities of Prime Money.

** Quality Fund, a fund managed by LBAM LLC, an affiliate of Management, is used to invest cash the Fund receives as collateral for securities loans as approved by the Board. Because all shares of Quality Fund are held by funds in the related investment management complex, Quality Fund may be considered an affiliate of the Fund.

Note F Recent Accounting Pronouncement:

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 157, "Fair Value Measurement" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes the adoption of SFAS 157 will not have a material impact on the Fund's financial positions or results of operations.

Financial Highlights

Lehman Brothers First Trust Income Opportunity Fund

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements.

	Year Ended December 31,				For the Period 7/28/2003^ through December 31,
	2007^^	**2006**	**2005**	**2004**	**2003**
Net Asset Value, Beginning of Period (Common Shares)	$ 15.05	$ 14.51	$ 15.58	$ 15.51	$ 14.33@@
Net Investment Income¢	1.67	1.65	1.71	1.72	0.64
Net Realized and Unrealized Gain (Loss) on Investments	(1.34)	0.61	(0.94)	0.11	1.31
Dividends to Preferred Shareholders					
From Net Investment Income¢	(0.40)	(0.37)	(0.24)	(0.11)	(0.02)
From Net Realized Gains¢	(0.01)				