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Gabelli Global Deal Fund
Form N-CSR
March 10, 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 811-21969

The Gabelli Global Deal Fund

(Exact name of registrant as specified in charter)

One Corporate Center
Rye, New York 10580-1422

(Address of principal executive offices) (Zip code)

Bruce N. Alpert
Gabelli Funds, LLC
One Corporate Center
Rye, New York 10580-1422
(Name and address of agent for service)

registrant's telephone number, including area code: 1-800-422-3554

Date of fiscal year end: December 31

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. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

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ITEM 1. REPORTS TO STOCKHOLDERS.

The Report to Shareholders is attached herewith.

[LOGO]
THE GABELLI
GLOBAL DEAL
FUND

THE GABELLI GLOBAL DEAL FUND
Annual Report
December 31, 2007

TO OUR SHAREHOLDERS,

The Sarbanes-Oxley Act requires a fund's principal executive and financial officers to certify the entire contents of the semi-annual and annual shareholder reports in a filing with the Securities and Exchange Commission on Form N-CSR. This certification would cover the portfolio manager's commentary and subjective opinions if they are attached to or a part of the financial statements. Many of these comments and opinions would be difficult or impossible to certify.

Because we do not want our portfolio managers to eliminate their opinions and/or restrict their commentary to historical facts, we have separated their commentary from the financial statements and investment portfolio and have sent it to you separately. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at www.gabelli.com.

Enclosed are the audited financial statements and the investment portfolio as of December 31, 2007.

COMPARATIVE RESULTS

RETURNS THROUGH DECEMBER 31, 2007 (a)

	Quarter	Since Inception (01/31/07)
	-----	-----
GABELLI GLOBAL DEAL FUND		
NAV TOTAL RETURN (b)	(1.06)%	3.35%
INVESTMENT TOTAL RETURN (c)	(4.50)	(14.55)
3 Month U.S. Treasury Bill Index	1.05	4.59
S&P 500 Index	(3.33)	3.92

(a) RETURNS REPRESENT PAST PERFORMANCE AND DO NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURNS AND THE PRINCIPAL VALUE OF AN INVESTMENT WILL FLUCTUATE. WHEN SHARES ARE SOLD, THEY MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST. PERFORMANCE RETURNS FOR PERIODS LESS THAN ONE YEAR ARE NOT ANNUALIZED. CURRENT PERFORMANCE MAY BE LOWER OR HIGHER THAN THE PERFORMANCE DATA PRESENTED. VISIT WWW.GABELLI.COM FOR PERFORMANCE INFORMATION AS OF THE MOST RECENT MONTH END. INVESTORS SHOULD CAREFULLY CONSIDER THE INVESTMENT OBJECTIVES, RISKS, CHARGES, AND EXPENSES OF THE FUND BEFORE INVESTING. THE 3 MONTH U.S. TREASURY BILL INDEX IS COMPRISED

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OF A SINGLE ISSUE PURCHASED AT THE BEGINNING OF THE MONTH AND HELD FOR A FULL MONTH. AT THE END OF THE MONTH, THAT ISSUE IS SOLD AND ROLLED INTO THE OUTSTANDING TREASURY BILL THAT MATURES CLOSEST TO, BUT NOT BEYOND THREE MONTHS FROM THE RE-BALANCING DATE. TO QUALIFY FOR SELECTION, AN ISSUE MUST HAVE SETTLED ON OR BEFORE THE RE-BALANCING (MONTH END) DATE. THE S&P 500 INDEX IS AN UNMANAGED INDICATOR OF STOCK MARKET PERFORMANCE. DIVIDENDS ARE CONSIDERED REINVESTED EXCEPT FOR THE 3 MONTH U.S. TREASURY BILL INDEX. YOU CANNOT INVEST DIRECTLY IN AN INDEX.

- (b) TOTAL RETURNS AND AVERAGE ANNUAL RETURNS REFLECT CHANGES IN THE NET ASSET VALUE ("NAV") PER SHARE AND REINVESTMENT OF DISTRIBUTIONS AT NAV ON THE EX-DIVIDEND DATE AND ARE NET OF EXPENSES. SINCE INCEPTION RETURN IS BASED ON AN INITIAL NAV OF \$19.06.
- (c) TOTAL RETURNS AND AVERAGE ANNUAL RETURNS REFLECT CHANGES IN CLOSING MARKET VALUES ON THE NEW YORK STOCK EXCHANGE AND REINVESTMENT OF DISTRIBUTIONS. SINCE INCEPTION RETURN IS BASED ON AN INITIAL OFFERING PRICE OF \$20.00.

Sincerely yours,

/s/ Bruce N. Alpert

Bruce N. Alpert
President

February 22, 2008

THE GABELLI GLOBAL DEAL FUND SUMMARY OF PORTFOLIO HOLDINGS (UNAUDITED)

The following table presents portfolio holdings as a percent of total investments as of December 31, 2007:

U.S. Government Obligations	34.7%
Health Care	12.3%
Energy and Utilities	8.7%
Computer Software and Services	7.1%
Wireless Communications	5.1%
Consumer Products	5.0%
Media	4.1%
Telecommunications	3.7%
Building and Construction	3.1%
Hotels and Gaming	2.8%
Specialty Chemicals	2.4%
Financial Services	2.1%
Diversified Industrial	2.1%
Business Services	1.2%
Equipment and Supplies	1.1%
Consumer Services	1.1%
Food and Beverage	0.7%
Electronics	0.6%
Metals and Mining	0.6%
Semiconductors	0.5%
Cable and Satellite	0.5%
Machinery	0.2%
Retail	0.2%
Communications Equipment	0.1%
Environmental Services	0.0%

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Automotive	0.0%
Materials	0.0%
Transportation	0.0%
Agriculture	0.0%
Computer Hardware	0.0%
Broadcasting	0.0%

	100.0%
	=====

THE GABELLI GLOBAL DEAL FUND (THE "FUND") FILES A COMPLETE SCHEDULE OF PORTFOLIO HOLDINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") FOR THE FIRST AND THIRD QUARTERS OF EACH FISCAL YEAR ON FORM N-Q, THE LAST OF WHICH WAS FILED FOR THE QUARTER ENDED SEPTEMBER 30, 2007. SHAREHOLDERS MAY OBTAIN THIS INFORMATION AT WWW.GABELLI.COM OR BY CALLING THE FUND AT 800-GABELLI (800-422-3554). THE FUND'S FORM N-Q IS AVAILABLE ON THE SEC'S WEBSITE AT WWW.SEC.GOV AND MAY ALSO BE REVIEWED AND COPIED AT THE SEC'S PUBLIC REFERENCE ROOM IN WASHINGTON, DC. INFORMATION ON THE OPERATION OF THE PUBLIC REFERENCE ROOM MAY BE OBTAINED BY CALLING 1-800-SEC-0330.

PROXY VOTING

The Fund files Form N-PX with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. A description of the Fund's proxy voting policies, procedures, and how the Fund voted proxies relating to portfolio securities is available without charge, upon request, by (i) calling 800-GABELLI (800-422-3554); (ii) writing to The Gabelli Funds at One Corporate Center, Rye, NY 10580-1422; and (iii) visiting the SEC's website at www.sec.gov.

THE GABELLI GLOBAL DEAL FUND
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2007

SHARES		COST	MARKET VALUE
-----		-----	-----
	COMMON STOCKS -- 65.3%		
	AGRICULTURE -- 0.0%		
1,000	Provimi SA	\$ 46,580	\$ 27,048
		-----	-----
	AUTOMOTIVE -- 0.0%		
6,000	Lear Corp.+	180,593	165,960
		-----	-----
	BROADCASTING -- 0.0%		
1,000	Cumulus Media Inc., Cl. A+	11,045	8,040
		-----	-----
	BUILDING AND CONSTRUCTION -- 3.1%		
5,000	Goodman Global Inc.+	124,128	122,700
25,000	Hagemeyer NV	161,135	171,060
125,000	The Genlyte Group Inc.+	11,793,577	11,900,000
		-----	-----
		12,078,840	12,193,760
		-----	-----
	BUSINESS SERVICES -- 1.2%		
4,000	Acxiom Corp.	84,020	46,920
2,000	Electronic Clearing		

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	ENERGY AND UTILITIES -- 8.7%		
2,000,000	Aquila Inc.+	8,311,809	7,460,000
235,000	Endesa SA	12,404,976	12,489,217
30,000	Energy East Corp.	813,846	816,300
100,000	Grant Prideco Inc.+	5,391,570	5,551,000
85,000	NorthWestern Corp.	2,677,535	2,507,500
30,000	PrimeWest Energy Trust	838,084	818,279
175,000	Puget Energy Inc.	4,900,670	4,800,250
50,000	WesternZagros Resources Ltd.+	183,304	121,587
		-----	-----
		35,521,794	34,564,133
		-----	-----
	ENTERTAINMENT -- 0.0%		
300	Penn National Gaming Inc.+	17,971	17,865
		-----	-----
	ENVIRONMENTAL SERVICES -- 0.0%		
5,000	Waste Industries USA Inc.	178,926	181,500
		-----	-----
	EQUIPMENT AND SUPPLIES -- 1.1%		
100,000	Trane Inc.	4,556,686	4,671,000
		-----	-----
	FINANCIAL SERVICES -- 2.1%		
100,000	Alfa Corp.	2,162,138	2,167,000
6,000	Asset Acceptance Capital Corp.	113,430	62,460
5,000	Banco BPI SA	42,724	39,183
4,000	Commerce Bancorp Inc.	150,771	152,560
1,000	First Indiana Corp.	31,305	32,000
120,000	SLM Corp.	5,269,857	2,416,800
35,000	The Midland Co.	2,219,556	2,264,150
30,000	Wachovia Corp.	1,402,135	1,140,900
		-----	-----
		11,391,916	8,275,053
		-----	-----
	FOOD AND BEVERAGE -- 0.7%		
10,000	Bull-Dog Sauce Co. Ltd.	31,857	19,693
18,000	Grolsch NV, CVA	1,266,148	1,260,055
202,000	Katokichi Co. Ltd.	1,278,720	1,262,105
6,000	Reddy Ice Holdings Inc.	180,740	151,860
		-----	-----
		2,757,465	2,693,713
		-----	-----
	HEALTH CARE -- 12.3%		
100,000	Adams Respiratory Therapeutics Inc.+	5,919,285	5,974,000
125,000	Aspreva Pharmaceuticals Corp.+	3,203,306	3,250,000
5,000	Axcan Pharma Inc.+	112,775	115,000
5,000	Bradley Pharmaceuticals Inc.+ ..	98,655	98,500
500,000	Coley Pharmaceutical Group Inc.+	3,964,452	4,000,000
30,000	E-Z-Em-Inc.+	617,985	621,900
300,000	MGI Pharma Inc.+	12,026,826	12,159,000
66,000	Pharmion Corp.+	4,237,324	4,148,760
200	Radiation Therapy Services Inc.+	6,197	6,182
150,000	Respironics Inc.+	9,815,889	9,822,000
200,000	Sierra Health Services Inc.+ ...	8,360,938	8,392,000
3,000	Ventana Medical Systems Inc.+ ..	230,504	261,690
2,000	Visicu Inc.+	23,510	23,740
		-----	-----

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48,617,646 48,872,772

See accompanying notes to financial statements.

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THE GABELLI GLOBAL DEAL FUND
SCHEDULE OF INVESTMENTS (CONTINUED)
DECEMBER 31, 2007

SHARES		COST	MARKET VALUE
	COMMON STOCKS (CONTINUED)		
	HOTELS AND GAMING -- 2.8%		
125,000	Harrah's Entertainment Inc.	\$ 10,780,811	\$ 11,093,750
	MACHINERY -- 0.2%		
10,000	Stork NV	698,108	703,247
	MATERIALS -- 0.0%		
12,500	Intertape Polymer Group Inc.+ ..	58,500	39,250
	MEDIA -- 4.1%		
100,000	APN News & Media Ltd.	469,655	462,731
330,000	Cablevision Systems Corp.,		
	Cl. A+	11,300,471	8,085,000
230,000	Clear Channel		
	Communications Inc.	8,371,712	7,939,600
		20,141,838	16,487,331
	METALS AND MINING -- 0.6%		
3,000	Arizona Star Resource Corp.+ ...	53,453	54,258
73,700	Claymont Steel		
	Holdings Inc.+	1,721,348	1,720,895
1,000	Cumerio NV/SA	40,067	41,683
5,000	Gloucester Coal Ltd.	20,075	28,976
20,000	Jubilee Mines NL	396,041	398,282
16,000	Uranium One Inc.+	205,440	143,148
		2,436,424	2,387,242
	RETAIL -- 0.2%		
3,120	AOKI Holdings Inc.	53,770	54,907
14,500	Genesco Inc.+	768,962	548,100
		822,732	603,007
	SEMICONDUCTORS -- 0.5%		
107,600	Nextest Systems Corp.+	2,121,532	2,140,164
	SPECIALTY CHEMICALS -- 2.4%		
320	Mitsubishi Chemical		
	Holdings Corp.	2,566	2,458
250,000	UAP Holding Corp.	9,571,862	9,650,000
		9,574,428	9,652,458

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NET ASSETS -- COMMON SHARES
 (21,300,610 common shares outstanding) \$ 394,017,027
 =====

NET ASSET VALUE PER COMMON SHARE
 (\$394,017,027 / 21,300,610 shares outstanding) \$ 18.50
 =====

SHARES		PROCEEDS	MARKET VALUE

	SECURITIES SOLD SHORT -- (0.1)% COMMUNICATIONS EQUIPMENT -- (0.1)%		
6,308	CommScope Inc.+	\$ 305,054	\$ 310,417
PRINCIPAL AMOUNT		SETTLEMENT DATE	UNREALIZED DEPRECIATION

	FORWARD FOREIGN EXCHANGE CONTRACTS -- (0.0)%		
\$ 8,117,671(a)	Deliver Euros in exchange for USD11,784,098	01/31/08	\$ (84,362) =====

- (a) Principal amount denoted in Euros.
- + Non-income producing security.
- ++ Represents annualized yield at date of purchase.

ADR American Depository Receipt

	% OF MARKET VALUE	MARKET VALUE

GEOGRAPHIC DIVERSIFICATION		
United States	80.9%	\$ 322,495,575
Europe	14.0	55,811,948
Canada	4.1	16,097,671
Asia/Pacific	0.7	2,749,990
Japan	0.3	1,339,162
	-----	-----
	100.0%	\$ 398,494,346 =====

See accompanying notes to financial statements.

THE GABELLI GLOBAL DEAL FUND
 STATEMENT OF ASSETS AND LIABILITIES
 DECEMBER 31, 2007

ASSETS:

Investments, at value (cost \$413,270,800)	\$ 398,494,346
Foreign currency, at value (cost \$515,175)	515,321
Deposit at broker	305,054

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Receivable for investments sold	10,280,546
Dividends receivable	830,722
Prepaid expense	11,718

TOTAL ASSETS	410,437,707

LIABILITIES:	
Securities sold short (proceeds received \$305,054)	310,417
Payable to custodian	664,810
Payable for investments purchased	14,518,604
Payable for investment advisory fees	169,384
Payable for payroll expenses	41,716
Payable for accounting fees	11,250
Unrealized depreciation on swap contracts	304,194
Payable for offering expenses	205,068
Unrealized depreciation on forward foreign exchange contracts	84,362
Other accrued expenses	110,875

TOTAL LIABILITIES	16,420,680

NET ASSETS applicable to 21,300,610 shares outstanding	\$ 394,017,027
	=====
NET ASSETS CONSIST OF:	
Paid-in capital, at \$0.001 par value	\$ 406,030,136
Undistributed net investment income	691,417
Accumulated net realized gains on investments, swap contracts, and foreign currency transactions	2,175,957
Net unrealized depreciation on investments	(14,776,454)
Net unrealized depreciation on swap contracts	(304,194)
Net unrealized depreciation on securities sold short	(5,363)
Net unrealized appreciation on foreign currency translations	205,528

NET ASSETS	\$ 394,017,027
	=====
NET ASSET VALUE PER COMMON SHARE:	
(\$394,017,027 / 21,300,610 shares outstanding; unlimited number of shares authorized)	\$ 18.50
	=====

STATEMENT OF OPERATIONS FOR THE PERIOD ENDED DECEMBER 31, 2007 (a)

INVESTMENT INCOME:	
Dividends (net of foreign taxes of \$194,222)	\$ 5,643,486
Interest	4,461,358

TOTAL INVESTMENT INCOME	10,104,844

EXPENSES:	
Investment advisory fees	1,848,048
Shareholder communications expenses	129,778
Payroll expenses	113,092
Trustees' fees	61,198
Custodian fees	50,079
Legal and audit fees	49,000
Accounting fees	45,000
Interest expense	16,638
Shareholder services fees	8,074
Miscellaneous expenses	50,803

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TOTAL EXPENSES	2,371,710
Less: Custodian fee credits	(66,717)
NET EXPENSES	2,304,993
NET INVESTMENT INCOME	7,799,851
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, SWAP CONTRACTS, SECURITIES SOLD SHORT, AND FOREIGN CURRENCY:	
Net realized gain on investments	19,755,219
Net realized gain on swap contracts	1,141,226
Net realized loss on foreign currency transactions	(282,139)
Net realized gain on investments, swap contracts, and foreign currency transactions	20,614,306
Net change in unrealized appreciation/depreciation:	
on investments	(14,776,454)
on swap contracts	(304,194)
on securities sold short	(5,363)
on foreign currency translations	205,528
Net change in unrealized appreciation/depreciation on investments, swap contracts, securities sold short, and foreign currency translations	(14,880,483)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, SWAP CONTRACTS, SECURITIES SOLD SHORT, AND FOREIGN CURRENCY	5,733,823
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 13,533,674

(a) The Gabelli Global Deal Fund commenced investment operations on January 31, 2007.

See accompanying notes to financial statements.

THE GABELLI GLOBAL DEAL FUND
STATEMENT OF CHANGES IN NET ASSETS

	PERIOD DECEMBER
OPERATIONS:	
Net investment income	\$ 7,
Net realized gain on investments, swap contracts, and foreign currency transactions	20,
Net change in unrealized appreciation/depreciation on investments, swap contracts, securities sold short, and foreign currency translations	(14,

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NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	13,
<hr/>	
DISTRIBUTIONS TO COMMON SHAREHOLDERS:	
Net investment income	(6,
Net realized gain on investments, swap contracts, and foreign currency transactions	(19,
<hr/>	
TOTAL DISTRIBUTIONS TO COMMON SHAREHOLDERS	(25,
<hr/>	
FUND SHARE TRANSACTIONS:	
Net increase in net assets from common shares issued in offering and reinvestment of distributions	406,
Net decrease from repurchase of common shares	(
Offering costs for common shares charged to paid-in-capital	(
<hr/>	
NET INCREASE IN NET ASSETS FROM FUND SHARE TRANSACTIONS	405,
<hr/>	
NET INCREASE IN NET ASSETS	393,
<hr/>	
NET ASSETS:	
Beginning of period	<hr/>
End of period (including undistributed net investment income of \$691,417)	\$ 394,
	<hr/> <hr/>

(a) The Gabelli Global Deal Fund commenced investment operations on January 31, 2007.

See accompanying notes to financial statements.

THE GABELLI GLOBAL DEAL FUND NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION. The Gabelli Global Deal Fund (the "Fund") is a non-diversified closed-end management investment company organized as a Delaware statutory trust on October 17, 2006 and registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund sold 5,236 shares to Gabelli Funds, LLC (the "Adviser") for \$100,008 on December 22, 2006. Investment operations commenced on January 31, 2007 upon the settlement of the sale of 18,750,000 shares of beneficial interest in the amount of \$357,375,000 (net of underwriting fees and expenses of \$17,625,000). In addition, on March 9, 2007, the Fund issued 2,500,000 shares of beneficial interest in the amount of \$47,650,000 (net of underwriting fees and expenses of \$2,350,000) in conjunction with the exercise of the underwriters' overallotment option. The Adviser agreed to pay all the Fund's organizational costs and the amount by which the Fund's offering costs (other than the underwriting fees) exceed \$0.04 per common share.

The Fund's primary investment objective is to achieve absolute returns in various market conditions without excessive risk of capital. The Fund will seek to achieve its objective by investing primarily in merger arbitrage transactions and, to a lesser extent, in corporate reorganizations involving stubs, spin-offs, and liquidations. Under normal market conditions, the Fund will invest at least 80% of its assets in securities or hedging arrangements relating to companies involved in corporate transactions or reorganizations, giving rise to the possibility of realizing gains upon or within relatively short periods of

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time after the completion of such transactions or reorganizations.

2. SIGNIFICANT ACCOUNTING POLICIES. The preparation of financial statements in accordance with United States ("U.S.") generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

SECURITY VALUATION. Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market's official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Trustees (the "Board") so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by the Adviser.

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of 60 days or less that are not credit impaired are valued at amortized cost, unless the Board determines such amount does not reflect the securities' fair value, in which case these securities will be fair valued as determined by the Board. Debt instruments having a maturity greater than 60 days for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons to the valuation and changes in valuation of similar securities, including a comparison of foreign securities to the equivalent U.S. dollar value ADR securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

In September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, management is in the process of reviewing the requirements of SFAS 157 against its current valuation policies to determine future applicability.

REPURCHASE AGREEMENTS. The Fund may enter into repurchase agreements with

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primary government securities dealers recognized by the Federal Reserve Board, with member banks of the Federal Reserve System, or with other brokers or dealers that meet credit guidelines established by the Adviser and reviewed by the Board. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell,

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THE GABELLI GLOBAL DEAL FUND NOTES TO FINANCIAL STATEMENTS (CONTINUED)

the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. The Fund will always receive and maintain securities as collateral whose market value, including accrued interest, will be at least equal to 102% of the dollar amount invested by the Fund in each agreement. The Fund will make payment for such securities only upon physical delivery or upon evidence of book entry transfer of the collateral to the account of the custodian. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to maintain the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited. At December 31, 2007, there were no open repurchase agreements.

SWAP AGREEMENTS. The Fund may enter into equity swap transactions. The use of equity swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. An equity swap is a swap where a set of future cash flows are exchanged between two counterparties. One of these cash flow streams will typically be based on a reference interest rate combined with the performance of a notional value of shares of a stock. The other will be based on the performance of the shares of a stock. There is no assurance that the swap contract counterparties will be able to meet their obligations pursuant to the swap contracts, or that, in the event of default, the Fund will succeed in pursuing contractual remedies. The Fund thus assumes the risk that it may be delayed in or prevented from obtaining payments owed to it pursuant to the swap contracts. The creditworthiness of the swap contract counterparties is closely monitored in order to minimize the risk. Depending on the general state of short-term interest rates and the returns of the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend payments. In addition, at the time an equity swap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments.

The use of derivative instruments involves, to varying degrees, elements of market and counterparty risk in excess of the amount recognized in the Statement of Assets and Liabilities.

Unrealized gains related to swaps are reported as an asset and unrealized losses are reported as a liability in the Statement of Assets and Liabilities. The change in value of swaps, including the accrual of periodic amounts of interest to be paid or received on swaps, is reported as unrealized gains or losses in the Statement of Operations. A realized gain or loss is recorded upon payment or receipt of a periodic payment or termination of swap agreements.

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The Fund has entered into equity swap agreements with Bear, Stearns International Limited. Details of the swaps at December 31, 2007 are as follows:

NOTIONAL AMOUNT -----	EQUITY SECURITY RECEIVED -----	INTEREST RATE/ EQUITY SECURITY PAID -----
	Market Value	Overnight LIBOR plus 40 bps plu
	Appreciation on:	Market Value Depreciation on:
\$ 65,225 (100,000 shares)	Gulf Keystone Petroleum Ltd.	Gulf Keystone Petroleum Ltd.
10,943,612 (800,000 shares)	Imperial Chemical Industries plc	Imperial Chemical Industries plc
9,193 (1,000 shares)	J Sainsbury plc	J Sainsbury plc
74,370 (25,000 shares)	Umbro plc	Umbro plc
507,482 (20,000 shares)	Burren Energy plc	Burren Energy plc
908,941 (75,000 shares)	Gyrus Group plc	Gyrus Group plc
1,625,568 (75,000 shares)	Kelda Group plc	Kelda Group plc
55,710 (10,000 shares)	Foseco plc	Foseco plc
13,593 (1,000 shares)	MTL Instruments Group plc	MTL Instruments Group plc

FUTURES CONTRACTS. The Fund may engage in futures contracts for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Upon entering into a futures contract, the Fund is required to deposit with the broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as the "initial margin." Subsequent payments ("variation margin") are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, which are included in unrealized appreciation/depreciation on investments and futures contracts. The Fund recognizes a realized gain or loss when the contract is closed.

There are several risks in connection with the use of futures contracts as a hedging instrument. The change in value of futures contracts primarily corresponds with the value of their underlying instruments, which may not correlate with the change in value of the hedged investments. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market. At December 31, 2007, there were no open futures contracts.

THE GABELLI GLOBAL DEAL FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SECURITIES SOLD SHORT. The Fund may enter into short sale transactions. Short selling involves selling securities that may or may not be owned and, at times, borrowing the same securities for delivery to the purchaser, with an obligation to replace such borrowed securities at a later date. The proceeds received from short sales are recorded as liabilities and the Fund records an unrealized gain or loss to the extent of the difference between the proceeds received and the value of an open short position on the day of determination. The Fund records a realized gain or loss when the short position is closed out. By entering into a short sale, the Fund bears the market risk of an unfavorable

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change in the price of the security sold short. Dividends on short sales are recorded as an expense by the Fund on the ex-dividend date and interest expense is recorded on the accrual basis. Securities sold short at December 31, 2007 are reflected in the Schedule of Investments.

FORWARD FOREIGN EXCHANGE CONTRACTS. The Fund may engage in forward foreign exchange contracts for hedging a specific transaction with respect to either the currency in which the transaction is denominated or another currency as deemed appropriate by the Adviser. Forward foreign exchange contracts are valued at the forward rate and are marked-to-market daily. The change in market value is included in unrealized appreciation/depreciation on investments and foreign currency translations. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of forward foreign exchange contracts does not eliminate fluctuations in the underlying prices of the Fund's portfolio securities, but it does establish a rate of exchange that can be achieved in the future. Although forward foreign exchange contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency increase. In addition, the Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts. Forward foreign exchange contracts at December 31, 2007 are reflected in the Schedule of Investments.

FOREIGN CURRENCY TRANSLATIONS. The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments, and other assets and liabilities are translated into U.S. dollars at the current exchange rates. Purchases and sales of investment securities, income, and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses that result from changes in foreign exchange rates and/or changes in market prices of securities have been included in unrealized appreciation/depreciation on investments and foreign currency translations. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the purchase trade date and subsequent sale trade date is included in realized gain (loss) on investments.

FOREIGN SECURITIES. The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the ability to repatriate funds, less complete financial information about companies, and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers.

FOREIGN TAXES. The Fund may be subject to foreign taxes on income, gains on investments, or currency repatriation, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable, based upon its current interpretation of tax rules and regulations that exist in the markets in which it invests.

CONCENTRATION RISKS. The Fund may invest a high percentage of its assets in specific sectors of the market in order to achieve a potentially greater investment return. As a result, the Fund may be more susceptible to economic, political, and regulatory developments in a particular sector of the market, positive or negative, and may experience increased volatility to the Fund's NAV

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and a magnified effect in its total return.

MERGER ARBITRAGE RISK. The principal risk associated with the Fund's investment strategy is that certain of the proposed reorganizations in which the Fund invests may involve a longer time frame than originally contemplated, or be renegotiated or terminated, in which case, losses may be realized. The Fund invests all or a portion of its assets to seek short-term capital appreciation. This can be expected to increase the portfolio turnover rate and cause increased brokerage commission costs.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME. Securities transactions are accounted for on the trade date with realized gain or loss on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded on the accrual basis. Premiums and discounts on debt securities are amortized using the effective yield to maturity method. Dividend income is recorded on the ex-dividend date except for certain dividends which are recorded as soon as the Fund is informed of the dividend.

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THE GABELLI GLOBAL DEAL FUND NOTES TO FINANCIAL STATEMENTS (CONTINUED)

CUSTODIAN FEE CREDITS AND INTEREST EXPENSE. When cash balances are maintained in the custody account, the Fund receives credits which are used to offset custodian fees. The gross expenses paid under the custody arrangement are included in custodian fees in the Statement of Operations with the corresponding expense offset, if any, shown as "custodian fee credits." When cash balances are overdrawn, the Fund is charged an overdraft fee equal to 110% of the 90 day Treasury Bill rate on outstanding balances. This amount, if any, would be shown as "interest expense" in the Statement of Operations.

DISTRIBUTIONS TO SHAREHOLDERS. Distributions to shareholders are recorded on the ex-dividend date. Distributions to shareholders are based on income and capital gains as determined in accordance with federal income tax regulations, which may differ from income and capital gains as determined under U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences, and differing characterizations of distributions made by the Fund. Distributions from net investment income include net realized gains on foreign currency transactions. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, adjustments are made to the appropriate capital accounts in the period when the differences arise. These reclassifications have no impact on the NAV of the Fund. For the period ended December 31, 2007, reclassifications were made to decrease undistributed net investment income by \$760,058 and increase accumulated net realized gains on investments, swap contracts, and foreign currency transactions by \$760,058.

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

DISTRIBUTIONS PAID FROM:

Ordinary income (inclusive of short-term capital gains)	\$ 25,546,783

Total distributions paid	\$ 25,546,783
	=====

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PROVISION FOR INCOME TAXES. The Fund intends to qualify and elect to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

At December 31, 2007, the difference between book basis and tax basis unrealized appreciation was primarily due to deferral of losses from wash sales for tax purposes and mark-to-market adjustments on passive foreign investment companies.

As of December 31, 2007, the components of accumulated earnings (losses) on a tax basis were as follows:

Net unrealized depreciation on investments	\$ (15,068,398)
Net unrealized depreciation on foreign currency and swap contracts	(98,666)
Undistributed ordinary income	2,991,405
Post-October currency loss deferral	(141,644)
Other temporary differences	304,194

Total	\$ (12,013,109)
	=====

The following summarizes the tax cost of investments and the related unrealized appreciation (depreciation) at December 31, 2007:

	COST/ PREMIUMS	GROSS UNREALIZED APPRECIATION	GROSS UNREALIZED DEPRECIATION	NET UNREALIZED DEPRECIATION
	-----	-----	-----	-----
Investments	\$ 413,557,381	\$ 3,062,591	\$ (18,125,626)	\$ (15,063,035)
Short sales	305,054	--	(5,363)	(5,363)
		-----	-----	-----
		\$ 3,062,591	\$ (18,130,989)	\$ (15,068,398)
		=====	=====	=====

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (the "Interpretation") established a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether the Fund is taxable in a particular jurisdiction) and required certain expanded tax disclosures. The Fund has adopted the Interpretation for all open tax years and it had no impact on the amounts reported in the financial statements.

3. AGREEMENTS AND TRANSACTIONS WITH AFFILIATES. The Fund has entered into an investment advisory agreement (the "Advisory Agreement") with the Adviser which provides that the Fund will pay the Adviser a base fee, computed weekly and paid monthly, equal on an annual basis to 0.50% of the value of the Fund's average weekly managed assets. Managed assets consist of all of the assets of the Fund without deduction for borrowings, repurchase transactions and other leveraging techniques, the liquidation value of any outstanding preferred shares, or other liabilities except for certain ordinary course expenses. In addition, the Fund may pay the Adviser an annual performance fee at calendar year end if the Fund's total return on its managed assets during the calendar year in question exceeds

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the total return of the 3 Month U.S. Treasury Bill Index (the "T-Bill Index") during the same period. For every 4 basis points that the Fund's total return exceeds the T-Bill Index, the Fund will accrue weekly and pay annually 1 basis point performance fee up

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THE GABELLI GLOBAL DEAL FUND NOTES TO FINANCIAL STATEMENTS (CONTINUED)

to a maximum performance fee of 150 basis points. Under the performance fee arrangement, the annual rate of the total fees paid to the Adviser can range from 0.50% to 2.00% of the average weekly managed assets. For the period ended December 31, 2007, the Fund did not pay a performance fee to the Adviser. In accordance with the Advisory Agreement, the Adviser provides a continuous investment program for the Fund's portfolio and oversees the administration of all aspects of the Fund's business and affairs.

During the period ended December 31, 2007, the Fund paid brokerage commissions on security trades of \$856,982 to Gabelli & Company, Inc. ("Gabelli & Company"), an affiliate of the Adviser.

The cost of calculating the Fund's NAV per share is a Fund expense pursuant to the Advisory Agreement between the Fund and the Adviser. During the period ended December 31, 2007, the Fund paid or accrued \$45,000 to the Adviser in connection with the cost of computing the Fund's NAV.

As per the approval of the Board, the Fund compensates officers, who are employed by the Fund and are not employed by the Adviser (although the officers may receive incentive based variable compensation from affiliates of the Adviser) and pays its allocated portion of the cost of the Fund's Chief Compliance Officer. For the period ended December 31, 2007 the Fund paid or accrued \$113,092, which is included in payroll expenses in the Statement of Operations.

The Fund pays each Trustee who is not considered to be an affiliated person an annual retainer of \$3,000 plus \$1,000 for each Board meeting attended in person (\$500 if attended telephonically) and they are reimbursed for any out of pocket expenses incurred in attending meetings. All Board committee members receive \$500 per committee meeting attended. Trustees who are directors or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

4. PORTFOLIO SECURITIES. Purchases and proceeds from the sales of securities for the period ended December 31, 2007, other than short-term and U.S. Government securities, aggregated \$1,511,044,317 and \$528,976,116, respectively.

5. CAPITAL. The Fund is authorized to issue an unlimited number of common shares of beneficial interest (par value \$0.001). The Board has authorized the repurchase of its shares on the open market when the shares are trading at a discount of 7.5% or more (or such other percentage as the Board may determine from time to time) from the NAV of the shares. During the period ended December 31, 2007, the Fund repurchased 10,500 shares of its common stock in the open market at a cost of \$173,799 and an average discount of approximately 13.75% from its NAV. All shares of common stock repurchased have been retired.

Transactions in shares of beneficial interest were as follows:

PERIOD ENDED

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	DECEMBER 31, 2007 (a)	
	SHARES	AMOUNT
Initial Seed Capital	5,236	\$ 100,008
Shares issued in offering (net of underwriting fees and offering costs)	21,250,000	405,025,000
Shares issued upon reinvestment of distributions	55,874	1,078,927
Shares repurchased	(10,500)	(173,799)
Net increase	21,300,610	\$ 406,030,136

(a) The Gabelli Global Deal Fund commenced investment operations on January 31, 2007.

6. INDEMNIFICATIONS. The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

7. OTHER MATTERS. The Adviser and/or affiliates received subpoenas from the Attorney General of the State of New York and the SEC requesting information on mutual fund share trading practices involving certain funds managed by the Adviser. GAMCO Investors, Inc. ("GAMCO"), the Adviser's parent company, responded to these requests for documents and testimony. In June 2006, GAMCO began discussions with the SEC regarding a possible resolution of their inquiry. In February 2007, the Adviser made an offer of settlement to the staff of the SEC for communication to the Commission for its consideration to resolve this matter. This offer of settlement is subject to agreement regarding the specific language of the SEC's administrative order and other settlement documents. On a separate matter, in September 2005, the Adviser was informed by the staff of the SEC that the staff may recommend to the Commission that an administrative remedy and a monetary penalty be sought from the Adviser in connection with the actions of two of nine closed-end funds managed by the Adviser relating to Section 19(a) and Rule 19a-1 of the 1940 Act. These provisions require registered investment companies to provide written statements to shareholders when a dividend is made from a source other than net investment income. While the two closed-end funds sent annual statements and provided other materials containing this information, the funds did not send written statements to shareholders with each distribution in 2002 and 2003. The Adviser believes that all of the funds are now in compliance. The Adviser believes that these matters would have no effect on the Fund or any material adverse effect on the Adviser or its ability to manage the Fund. The staff's notice to the Adviser did not relate to the Fund.

THE GABELLI GLOBAL DEAL FUND
FINANCIAL HIGHLIGHTS

SELECTED DATA FOR A COMMON SHARE OF BENEFICIAL INTEREST OUTSTANDING THROUGHOUT THE PERIOD:

PERIOD ENDED
DECEMBER 31, 2007 (d)

OPERATING PERFORMANCE:

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Net asset value, beginning of period	\$ 19.06 (e)
Net investment income (a)	0.37
Net realized and unrealized gain on investments, swap contracts, and foreign currency transactions	0.27

Total from investment operations	0.64

 DISTRIBUTIONS TO COMMON SHAREHOLDERS:	
Net investment income	(0.30)
Net realized gains on investments, swap contracts, and foreign currency transactions	(0.90)

Total distributions to common shareholders	(1.20)

 FUND SHARE TRANSACTIONS:	
Increased in net asset value from common share transactions	0.00 (f)

NET ASSET VALUE, END OF PERIOD	\$ 18.50
	=====
Net asset value total return +	3.35%
	=====
Market value, end of period	\$ 15.96
	=====
Total investment return ++	(14.55)%
	=====
 RATIOS TO AVERAGE NET ASSETS AND SUPPLEMENTAL DATA:	
Net assets end of period (in 000's)	\$394,017
Ratio of net investment income to average net assets	2.12% (g)
Ratio of operating expenses to average net assets (b) (c)	0.64% (g)
Portfolio turnover rate	177%

 + Based on net asset value per share, at commencement of operations of \$19.06 per share, adjusted for reinvestment of distributions at the asset value per share on the ex-dividend dates. Total return for a period of less than one year is not annualized.

++ Based on market value per share, at initial public offering of \$20.00 per share, adjusted for reinvestments of distributions at prices obtained under the Fund's dividend reinvestment plan. Total return for a period of less than one year is not annualized.

(a) Per share amounts have been calculated using the average shares outstanding method.

(b) The ratio does not include a reduction of expenses for custodian fee credits on cash balances maintained with the custodian. Including such custodian fee credits, the expense ratio for the period ended December 31, 2007 would have been 0.63%.

(c) The Fund incurred interest expense during the period ended December 31, 2007. If interest expense had not been incurred, the ratio of operating expenses to average net assets would have been 0.62%.

(d) The Gabelli Global Deal Fund commenced investment operations on January 31, 2007.

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- (e) The beginning of the period NAV reflects a \$0.04 reduction for costs associated with the initial public offering.
- (f) Amount represents less than \$0.005 per share.
- (g) Annualized.

See accompanying notes to financial statements.

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THE GABELLI GLOBAL DEAL FUND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of
The Gabelli Global Deal Fund:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Gabelli Global Deal Fund (the "Fund"), as of December 31, 2007, and the related statement of operations, statement of changes in net assets and financial highlights for the period January 31, 2007 (commencement of operations) through December 31, 2007. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with the Fund's custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Gabelli Global Deal Fund at December 31, 2007, the results of its operations, the changes in its net assets and its financial highlights for the period January 31, 2007 (commencement of operations) through December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 21, 2008

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THE GABELLI GLOBAL DEAL FUND
 ADDITIONAL FUND INFORMATION (UNAUDITED)

The business and affairs of the Fund are managed under the direction of the Fund's Board of Trustees. Information pertaining to the Trustees and officers of the Fund is set forth below. The Fund's Statement of Additional Information includes additional information about the Fund's Trustees and is available, without charge, upon request, by calling 800-GABELLI (800-422-3554) or by writing to The Gabelli Global Deal Fund at One Corporate Center, Rye, NY 10580-1422.

NAME, POSITION(S) ADDRESS(1) AND AGE	TERM OF OFFICE AND LENGTH OF TIME SERVED(2)	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS
INTERESTED TRUSTEES (3):			
MARIO J. GABELLI Trustee and Chief Investment Officer Age: 65	Since 2006**	26	Chairman and Chief Executive Officer of GAMCO Investors, Inc. and Chief Investment Officer - Value Portfolio of Gabelli Funds, LLC and GAMCO Asset Management Inc.; Director/Trustee and Chief Investment Officer of other registered investment companies in Gabelli/GAMCO Funds complex; Chairman and Chief Executive Officer of GGC Inc.
EDWARD T. TOKAR Trustee Age: 60	Since 2006***	2	Senior Managing Director of Beacon Trust Company since 2004; Chief Executive Officer of Allied Capital Management LLC (1997-2004); Vice President - Investments of Honeywell International Inc. (1977-2004)
NON-INTERESTED TRUSTEES (5):			
ANTHONY J. COLAVITA Trustee Age: 72	Since 2006***	35	Partner in the law firm of Anthony Colavita, P.C.
JAMES P. CONN Trustee Age: 69	Since 2006*	16	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings Ltd. (insurance holding company) (1992-
CLARENCE A. DAVIS Trustee Age: 65	Since 2006*	2	Chief Executive Officer of Nestor, Inc.; Former Chief Operating Officer (2000-2005) and Chief Financial Officer (1999-2000) of the American Institute of Certified Public Accountants
MARIO D'URSO	Since 2006**	4	Chairman of Mittel Capital Markets

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Trustee Age: 67			S.p.A. since 2001
ARTHUR V. FERRARA Trustee Age: 77	Since 2006*	7	Former Chairman of the Board and Executive Officer of The Guardian Insurance Company of America (1992-1995)
MICHAEL J. MELARKEY Trustee Age: 58	Since 2006**	4	Partner in the law firm of Avansino Melarkey, Knobel & Mulligan
SALVATORE J. ZIZZA Trustee Age: 62	Since 2006***	26	Chairman of Zizza & Co., Ltd. (consulting)

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THE GABELLI GLOBAL DEAL FUND ADDITIONAL FUND INFORMATION (CONTINUED) (UNAUDITED)

NAME, POSITION(S) ADDRESS(1) AND AGE	TERM OF OFFICE AND LENGTH OF TIME SERVED(2)	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS
OFFICERS:		
BRUCE N. ALPERT President Age: 56	Since 2006	Executive Vice President and Chief Operating Officer since 1988 and an officer of most of the registered the Gabelli/GAMCO Funds complex; Director and President Inc. since 1998
CARTER W. AUSTIN Vice President Age: 41	Since 2006	Vice President of The Gabelli Equity Trust Inc. since 2003, Dividend & Income Trust since 2003, The Gabelli Global Resources & Income Trust since 2005; and The Gabelli Trust since 2007; Vice President of Gabelli Funds,
PETER D. GOLDSTEIN Chief Compliance Officer Age: 54	Since 2006	Director of Regulatory Affairs at GAMCO Investors, Compliance Officer of all of the registered investment Gabelli/GAMCO Funds complex; Vice President of Gold (2000-2004)
JAMES E. MCKEE Secretary Age: 44	Since 2006	Vice President, General Counsel, and Secretary of GAMCO 1999 and GAMCO Asset Management Inc. since 1993; Secretary of registered investment companies in the Gabelli/GAMCO
SHEILA J. MOORE Assistant Vice President and Ombudsman Age: 45	Since 2006	Assistant Vice President of The Gabelli Global Deal professor in Economics and Finance, Woodbury University 2006
AGNES MULLADY	Since 2006	Vice President of Gabelli Funds, LLC since 2007; Of

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Treasurer
Age: 49

registered investment companies in the Gabelli/GAMCO
Vice President of U.S. Trust Company, N.A. and Treas
Officer of Excelsior Funds (2004-2005); Chief Finan
Distribution Partners (2002-2004); Controller of Re
Corporation and Reserve Partners, Inc. and Treasur
(2000-2002)

DAVID I. SCHACHTER
Vice President
Age: 54

Since 2006

Vice President of The Gabelli Utility Trust since 1
Utility & Income Trust since 2004; Vice President o
since 1999; and The Gabelli Healthcare & Wellness(R

-
- (1) Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.
- (2) The Fund's Board of Trustees is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:
- * - Term expires at the Fund's 2008 Annual Meeting of Shareholders or until their successors are duly elected and qualified.
 - ** - Term expires at the Fund's 2009 Annual Meeting of Shareholders or until their successors are duly elected and qualified.
 - *** - Term expires at the Fund's 2010 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

Each officer will hold office for an indefinite term until the date he or she resigns or retires or until his or her successor is elected and qualified.

- (3) "Interested person" of the Fund as defined in the 1940 Act. Mr. Gabelli is considered an "interested person" of the Fund because of his affiliation with the Investment Adviser and with Gabelli & Company, Inc., which is a principal underwriter for the Fund's common shares and is expected to execute portfolio transactions for the Fund. Mr. Tokar is considered an "interested person" of the Fund as a result of his son's employment by an affiliate of the Adviser.
- (4) This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934, as amended (i.e. public companies) or other investment companies registered under the 1940 Act.
- (5) Trustees who are not interested persons are considered "Independent" Trustees.

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THE GABELLI GLOBAL DEAL FUND
INCOME TAX INFORMATION (UNAUDITED)
DECEMBER 31, 2007

CASH DIVIDENDS AND DISTRIBUTIONS

PAYABLE	RECORD	TOTAL AMOUNT PAID	ORDINARY INVESTMENT	DIVIDEND REINVESTMENT
---------	--------	----------------------	------------------------	--------------------------

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	DATE	DATE	PER SHARE (a)	INCOME (a)	PRICE
	-----	-----	-----	-----	-----
COMMON SHARES					
	06/25/07	06/15/07	\$0.40000	\$0.40000	\$19.1320
	09/24/07	09/14/07	0.40000	0.40000	17.2356
	12/17/07	12/12/07	0.40000	0.40000	15.9673
			-----	-----	
			\$1.20000	\$1.20000	

A Form 1099-DIV has been mailed to all shareholders of record for the distributions mentioned above, setting forth specific amounts to be included in the 2007 tax returns. Ordinary income distributions include net investment income and realized net short-term capital gains. Ordinary income is reported in box 1a of Form 1099-DIV. Long-term capital gain distributions are reported in box 2a of Form 1099-DIV.

CORPORATE DIVIDENDS RECEIVED DEDUCTION, QUALIFIED DIVIDEND INCOME, AND U.S. TREASURY SECURITIES INCOME

The Fund paid to common shareholders ordinary income dividends of \$1.20 per share in 2007. For the period ended December 31, 2007, 13.45% of the ordinary dividends qualified for the dividend received deduction available to corporations, and 16.07% of the ordinary income distributions were qualified dividend income. The percentage of ordinary income dividends paid by the Fund during 2007 derived from U.S. Treasury Securities was 2.79%. Such income is exempt from state and local tax in all states. However, many states, including New York and California, allow a tax exemption for a portion of the income earned only if a mutual fund has invested at least 50% of its assets at the end of each quarter of its fiscal year in U.S. Government Securities. The Fund did not meet this strict requirement in 2007. The percentage of net assets of U.S. Government Securities held as of December 31, 2007 was 35.05%.

HISTORICAL DISTRIBUTION SUMMARY

COMMON SHARES

	INVESTMENT INCOME (a)	SHORT-TERM CAPITAL GAINS (a)	TOTAL DISTRIBUTIONS
	-----	-----	-----
2007	\$0.2982	\$0.9018	\$1.20000

(a) Taxable as ordinary income for Federal tax purposes.

AUTOMATIC DIVIDEND REINVESTMENT
AND VOLUNTARY CASH PURCHASE PLANS

ENROLLMENT IN THE PLAN

It is the policy of The Gabelli Global Deal Fund (the "Fund") to automatically reinvest dividends payable to common shareholders. As a "registered" shareholder you automatically become a participant in the Fund's Automatic Dividend Reinvestment Plan (the "Plan"). The Plan authorizes the Fund to credit common shares to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to shareholders whose shares are

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registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their share certificates to American Stock Transfer ("AST") to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distributions in cash must submit this request in writing to:

The Gabelli Global Deal Fund
c/o American Stock Transfer
6201 15th Avenue
Brooklyn, NY 11219

Shareholders requesting this cash election must include the shareholder's name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan or requesting a copy of the terms of the Plan may contact AST at (888) 422-3262.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of "street name" and re-registered in your own name. Once registered in your own name your distributions will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in "street name" at participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of common shares distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund's common shares is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued common shares valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Fund's common shares. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange ("NYSE") trading day, the next trading day. If the net asset value of the common shares at the time of valuation exceeds the market price of the common shares, participants will receive common shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, AST will buy common shares in the open market, or on the NYSE, or elsewhere, for the participants' accounts, except that AST will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common shares exceeds the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

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VOLUNTARY CASH PURCHASE PLAN

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate

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in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to AST for investments in the Fund's common shares at the then current market price. Shareholders may send an amount from \$250 to \$10,000. AST will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. AST will charge each shareholder who participates a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to American Stock Transfer, 6201 15th Avenue, Brooklyn, NY 11219 such that AST receives such payments approximately 10 days before the investment date. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by AST at least 48 hours before such payment is to be invested.

SHAREHOLDERS WISHING TO LIQUIDATE SHARES HELD AT AST must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address, and account number. The cost to liquidate shares is \$1.00 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Automatic Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by AST on at least 90 days written notice to participants in the Plan.

The Annual Meeting of The Gabelli Global Deal Fund's shareholders will be held on Monday, May 19, 2008 at the Greenwich Library in Greenwich, Connecticut.

[GRAPHIC OMITTED]

TRUSTEES AND OFFICERS
THE GABELLI GLOBAL DEAL FUND
ONE CORPORATE CENTER, RYE, NY 10580-1422

TRUSTEES

Mario J. Gabelli, CFA
CHAIRMAN & CHIEF EXECUTIVE OFFICER,
GAMCO INVESTORS, INC.

Anthony J. Colavita

OFFICERS

Bruce N. Alpert
PRESIDENT

Carter W. Austin
VICE PRESIDENT

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ATTORNEY-AT-LAW,
ANTHONY J. COLAVITA, P.C.

James P. Conn
FORMER MANAGING DIRECTOR &
CHIEF INVESTMENT OFFICER,
FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.

Clarence A. Davis
CHIEF EXECUTIVE OFFICER,
NESTOR, INC.

Mario d'Urso
CHAIRMAN, MITTEL CAPITAL MARKETS SPA

Arthur V. Ferrara
FORMER CHAIRMAN & CHIEF EXECUTIVE OFFICER,
GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

Michael J. Melarkey
ATTORNEY-AT-LAW,
AVANSINO, MELARKEY, KNOBEL & MULLIGAN

Edward T. Tokar
SENIOR MANAGING DIRECTOR,
BEACON TRUST COMPANY

Salvatore J. Zizza
CHAIRMAN, ZIZZA & CO., LTD.

Peter D. Goldstein
CHIEF COMPLIANCE OFFICER

James E. McKee
SECRETARY

Sheila J. Moore
ASSISTANT VICE PRESIDENT & OMBUDSMAN

Agnes Mullady
TREASURER

David I. Schachter
VICE PRESIDENT

INVESTMENT ADVISER

Gabelli Funds, LLC
One Corporate Center
Rye, New York 10580-1422

CUSTODIAN

Mellon Trust of New England, N.A.

COUNSEL

Skadden, Arps, Slate, Meagher & Flom LLP

TRANSFER AGENT AND REGISTRAR

American Stock Transfer and Trust Company

STOCK EXCHANGE LISTING

	Common

NYSE-Symbol:	GDL
Shares Outstanding:	21,300,610

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading "Specialized Equity Funds," in Monday's The Wall Street Journal. It is also listed in Barron's Mutual Funds/Closed End Funds section under the heading "Specialized Equity Funds."

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting www.gabelli.com.

For general information about the Gabelli Funds, call 800-GABELLI (800-422-3554), fax us at 914-921-5118, visit Gabelli Funds' Internet homepage at: WWW.GABELLI.COM, or e-mail us at: closedend@gabelli.com

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Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may, from time to time, purchase its common shares in the open market when the Fund's shares are trading at a discount of 7.5% or more from the net asset value of the shares.

THE GABELLI GLOBAL DEAL FUND
ONE CORPORATE CENTER, RYE, NY 10580-1422

PHONE: 800-GABELLI (800-422-3554)
FAX: 914-921-5118 INTERNET: WWW.GABELLI.COM
E-MAIL: CLOSEDEND@GABELLI.COM

GDL Q4/2007

ITEM 2. CODE OF ETHICS.

- (a) The registrant, as of the end of the period covered by this report, has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.
- (c) There have been no amendments, during the period covered by this report, to a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics description.
- (d) The registrant has not granted any waivers, including an implicit waiver, from a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this item's instructions.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

As of the end of the period covered by the report, the registrant's Board of Directors has determined that Salvatore J. Zizza is qualified to serve as an audit committee financial expert serving on its audit committee and that he is "independent," as defined by Item 3 of Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES

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- (a) The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years are \$0 for 2006 and \$28,000 for 2007.

AUDIT-RELATED FEES

- (b) The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of this Item are \$0 for 2006 and \$0 for 2007.

TAX FEES

- (c) The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning are \$0 for 2006 and \$0 for 2007.

ALL OTHER FEES

- (d) The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this Item are \$0 for 2006 and \$0 for 2007.
- (e) (1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

Pre-Approval Policies and Procedures. The Audit Committee ("Committee") of the registrant is responsible for pre-approving (i) all audit and permissible non-audit services to be provided by the independent auditors to the registrant and (ii) all permissible non-audit services to be provided by the independent auditors to the Adviser, Gabelli Funds, LLC, and any affiliate of Gabelli Funds, LLC ("Gabelli") that provides services to the registrant (a "Covered Services Provider") if the independent auditors' engagement related directly to the operations and financial reporting of the registrant. The Committee may delegate its responsibility to pre-approve any such audit and permissible non-audit services to the Chairperson of the Committee, and the Chairperson must report to the Committee, at its next regularly scheduled meeting after the Chairperson's pre-approval of such services, his or her decision(s). The Committee may also establish detailed pre-approval policies and procedures for pre-approval of such services in accordance with applicable laws, including the delegation of some or all of the Committee's pre-approval responsibilities to the other persons (other than Gabelli or the registrant's officers). Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the permissible non-audit services were not recognized by the registrant at the time of the engagement to be non-audit services; and (ii) such services are promptly brought to the attention of the Committee and approved by the Committee or Chairperson prior to the completion of the audit.

- (e) (2) The percentage of services described in each of paragraphs (b)

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through (d) of this Item that were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X are as follows:

- (b) Not applicable
- (c) Not applicable
- (d) Not applicable
- (f) The percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was zero percent (0%).
- (g) The aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant was \$0 for 2006 and \$65,000 for 2007.
- (h) The registrant's audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The registrant has a separately designated audit committee consisting of the following members: Vincent D. Enright, Clarence Davis and Salvatore J. Zizza.

ITEM 6. SCHEDULE OF INVESTMENTS.

Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Proxy Voting Policies are attached herewith.

THE VOTING OF PROXIES ON BEHALF OF CLIENTS

Rules 204(4)-2 and 204-2 under the Investment Advisers Act of 1940 and Rule 30b1-4 under the Investment Company Act of 1940 require investment advisers

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to adopt written policies and procedures governing the voting of proxies on behalf of their clients.

These procedures will be used by GAMCO Asset Management Inc., Gabelli Funds, LLC, Gabelli Securities, Inc., and Teton Advisors, Inc. (collectively, the "Advisers") to determine how to vote proxies relating to portfolio securities held by their clients, including the procedures that the Advisers use when a vote presents a conflict between the interests of the shareholders of an investment company managed by one of the Advisers, on the one hand, and those of the Advisers; the principal underwriter; or any affiliated person of the investment company, the Advisers, or the principal underwriter. These procedures will not apply where the Advisers do not have voting discretion or where the Advisers have agreed to with a client to vote the client's proxies in accordance with specific guidelines or procedures supplied by the client (to the extent permitted by ERISA).

I. PROXY VOTING COMMITTEE

The Proxy Voting Committee was originally formed in April 1989 for the purpose of formulating guidelines and reviewing proxy statements within the parameters set by the substantive proxy voting guidelines originally published in 1988 and updated periodically, a copy of which are appended as Exhibit A. The Committee will include representatives of Research, Administration, Legal, and the Advisers. Additional or replacement members of the Committee will be nominated by the Chairman and voted upon by the entire Committee.

Meetings are held as needed basis to form views on the manner in which the Advisers should vote proxies on behalf of their clients.

In general, the Director of Proxy Voting Services, using the Proxy Guidelines, recommendations of Institutional Shareholder Corporate Governance Service ("ISS"), other third-party services and the analysts of Gabelli & Company, Inc., will determine how to vote on each issue. For non-controversial matters, the Director of Proxy Voting Services may vote the proxy if the vote is (1) consistent with the recommendations of the issuer's Board of Directors and not contrary to the Proxy Guidelines; (2) consistent with the recommendations of the issuer's Board of Directors and is a non-controversial issue not covered by the Proxy Guidelines; or (3) the vote is contrary to the recommendations of the Board of Directors but is consistent with the Proxy Guidelines. In those instances, the Director of Proxy Voting Services or the Chairman of the Committee may sign and date the proxy statement indicating how each issue will be voted.

All matters identified by the Chairman of the Committee, the Director of Proxy Voting Services or the Legal Department as controversial, taking into account the recommendations of ISS or other third party services and the analysts of Gabelli & Company, Inc., will be presented to the Proxy Voting Committee. If the Chairman of the Committee, the Director of Proxy Voting Services or the Legal Department has identified the matter as one that (1) is controversial; (2) would benefit from deliberation by the Proxy Voting Committee; or (3) may give rise to a conflict of interest between the Advisers and their clients, the Chairman of the Committee will initially determine what vote to recommend that the Advisers should cast and the matter will go before the Committee.

A. CONFLICTS OF INTEREST.

The Advisers have implemented these proxy voting procedures in order to prevent conflicts of interest from influencing their proxy voting decisions. By following the Proxy Guidelines, as well as the recommendations of ISS, other third-party services and the analysts of Gabelli & Company, the Advisers are able

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to avoid, wherever possible, the influence of potential conflicts of interest. Nevertheless, circumstances may arise in which one or more of the Advisers are faced with a conflict of interest or the appearance of a conflict of interest in connection with its vote. In general, a conflict of interest may arise when an Adviser knowingly does business with an issuer, and may appear to have a material conflict between its own interests and the interests of the shareholders of an investment company managed by one of the Advisers regarding how the proxy is to be voted. A conflict also may exist when an Adviser has actual knowledge of a material business arrangement between an issuer and an affiliate of the Adviser.

In practical terms, a conflict of interest may arise, for example, when a proxy is voted for a company that is a client of one of the Advisers, such as GAMCO Asset Management Inc. A conflict also may arise when a client of one of the Advisers has made a shareholder proposal in a proxy to be voted upon by one or more of the Advisers. The Director of Proxy Voting Services, together with the Legal Department, will scrutinize all proxies for these or other situations that may give rise to a conflict of interest with respect to the voting of proxies.

B. OPERATION OF PROXY VOTING COMMITTEE

For matters submitted to the Committee, each member of the Committee will receive, prior to the meeting, a copy of the proxy statement, any relevant third party research, a summary of any views provided by the Chief Investment Officer and any recommendations by Gabelli & Company, Inc. analysts. The Chief Investment Officer or the Gabelli & Company, Inc. analysts may be invited to present their viewpoints. If the Director of Proxy Voting Services or the Legal Department believe that the matter before the committee is one with respect to which a conflict of interest may exist between the Advisers and their clients, counsel will provide an opinion to the Committee concerning the conflict. If the matter is one in which the interests of the clients of one or more of Advisers may diverge, counsel will so advise and the Committee may make different recommendations as to different clients. For any matters where the recommendation may trigger appraisal rights, counsel will provide an opinion concerning the likely risks and merits of such an appraisal action.

Each matter submitted to the Committee will be determined by the vote of a majority of the members present at the meeting. Should the vote concerning one or more recommendations be tied in a vote of the Committee, the Chairman of the Committee will cast the deciding vote. The Committee will notify the proxy department of its decisions and the proxies will be voted accordingly.

Although the Proxy Guidelines express the normal preferences for the voting of any shares not covered by a contrary investment guideline provided by the client, the Committee is not bound by the preferences set forth in the Proxy Guidelines and will review each matter on its own merits. Written minutes of all Proxy Voting Committee meetings will be maintained. The Advisers subscribe to ISS, which supplies current information on companies, matters being voted on, regulations, trends in proxy voting and information on corporate governance issues.

If the vote cast either by the analyst or as a result of the deliberations of the Proxy Voting Committee runs contrary to the recommendation

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of the Board of Directors of the issuer, the matter will be referred to legal counsel to determine whether an amendment to the most recently filed Schedule 13D is appropriate.

II. SOCIAL ISSUES AND OTHER CLIENT GUIDELINES

If a client has provided special instructions relating to the voting of proxies, they should be noted in the client's account file and forwarded to the proxy department. This is the responsibility of the investment professional or sales assistant for the client. In accordance with Department of Labor guidelines, the Advisers' policy is to vote on behalf of ERISA accounts in the best interest of the plan participants with regard to social issues that carry an economic impact. Where an account is not governed by ERISA, the Advisers will vote shares held on behalf of the client in a manner consistent with any individual investment/voting guidelines provided by the client. Otherwise the Advisers will abstain with respect to those shares.

III. CLIENT RETENTION OF VOTING RIGHTS

If a client chooses to retain the right to vote proxies or if there is any change in voting authority, the following should be notified by the investment professional or sales assistant for the client.

- Operations
- Legal Department
- Proxy Department
- Investment professional assigned to the account

In the event that the Board of Directors (or a Committee thereof) of one or more of the investment companies managed by one of the Advisers has retained direct voting control over any security, the Proxy Voting Department will provide each Board Member (or Committee member) with a copy of the proxy statement together with any other relevant information including recommendations of ISS or other third-party services.

IV. VOTING RECORDS

The Proxy Voting Department will retain a record of matters voted upon by the Advisers for their clients. The Advisers will supply information on how an account voted its proxies upon request.

A letter is sent to the custodians for all clients for which the Advisers have voting responsibility instructing them to forward all proxy materials to:

[Adviser name]
Attn: Proxy Voting Department
One Corporate Center
Rye, New York 10580-1433

The sales assistant sends the letters to the cE="2">Jefferies Capital Partners IV L.P. (1)

3,224,739

13.6
%

Jefferies Employee Partners IV LLC

JCP Partners IV LLC

Morgan Stanley(2)

2,554,105

10.8
%

Morgan Stanley Investment Management Inc.

FMR LLC (3)

1,551,568

6.6
%

Alan Vituli (4)

1,433,718

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6.1
%

NorthPointe Capital, LLC (5)

1,198,484

5.1
%

Timothy P. Taft

244,906

1.0
%

Lynn S. Schweinfurth

62,171

*

James E. Tunnessen (6)

17,330

*

Stacey Rauch

7,868

*

Brian P. Friedman (7)

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3,232,607

13.7
%

Stephen P. Elker

7,868

*

Barry J. Alperin

6,883

*

Nicholas Daraviras (8)

7,868

*

Jack A. Smith

32,401

*

All directors and executive officers as a group (9)

3,815,852

16.1

⊘

* Less than one percent

- (1) Information was obtained from a Schedule 13D/A filed April 5, 2013 with the SEC. Jefferies Capital Partners IV L.P., or JCP IV, is the record owner of 2,779,870 shares, Jefferies Employee Partners IV LLC, or JEP, is the record owner of 322,479 shares and JCP Partners IV LLC, or JCP Partners (and together with JCP IV

- and JEP, the JCP Group) is the record owner of 102,390 shares. The shares held by the selling stockholders may be deemed to be beneficially owned by JCP IV LLC, which we refer to as the General Partner , the general partner of JCP IV and the managing member of each of JEP and JCP. The shares held by the General Partner may be deemed to be beneficially owned by Jefferies Capital Partners LLC, which we refer to as the Manager , the managing member of the General Partner. Brian P. Friedman and James L. Luikart, are each managing members of the Manager and in such capacity may each be deemed to be beneficial owner of the shares. The address for each of the JCP Group, the General Partner, the Manager, Mr. Friedman and Mr. Luikart is 520 Madison Avenue, 10th Floor, New York, New York 10022.
- (2) Information was obtained from a Schedule 13G/A filed on March 7, 2013 with the SEC. The address for Morgan Stanley and Morgan Stanley Investment Management Inc. is 1585 Broadway, New York, New York 10036 and 522 Fifth Avenue, New York, New York 10036, respectively.
 - (3) Information was obtained from a Schedule 13G filed on February 14, 2013 with the SEC. The address for FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.
 - (4) Information was obtained from a Schedule 13G filed on June 15, 2012 with the SEC. The address for Mr. Vituli is 789 Crandon Blvd., Suite 1201, Key Biscayne, Florida 33149.
 - (5) Information was obtained from a Schedule 13G filed on February 11, 2013 with the SEC. The address for NorthPointe Capital LLC is 101 W. Big Beaver, Suite 745, Troy, MI 48084.
 - (6) Information was obtained from a Statement of Changes in Beneficial Ownership on Form 4 filed November 15, 2012 with the SEC. Mr. Tunnessen retired from Fiesta Restaurant Group on January 31, 2013 and excludes 11,542 shares of our restricted common stock which were forfeited upon the retirement of Mr. Tunnessen on January 31, 2013.
 - (7) Includes 3,224,739 shares held by affiliates of the JCP Group as reported in footnote (1) above and 7,868 shares held directly by Mr. Friedman. Mr. Friedman is a managing member of the Manager and therefore he may be deemed to share voting and investment power over the shares owned by these entities, and therefore to beneficially own such shares. The address of Mr. Friedman is 520 Madison Avenue, 10th Floor, New York, New York 10022.
 - (8) The address of Mr. Daraviras is 520 Madison Avenue, 10th Floor, New York, New York 10022.
 - (9) Includes 3,224,739 shares held by affiliates of the JCP Group as reported in footnote (1) above. Mr. Friedman is a managing member of the Manager and therefore he may be deemed to share voting and investment power over the shares owned by these entities, and therefore to beneficially own such shares. Excludes shares beneficially owned by Mr. Tunnessen and Mr. Biviano.

Equity Compensation Plan

The following table summarizes our 2012 Stock Incentive Plan (the Fiesta Plan), which is the equity compensation plan under which our common stock may be issued as of December 30, 2012. Our stockholders have approved the Fiesta Plan.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted- average Exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders			2,512,988
Equity compensation plans not approved by security holders			
Total			2,512,988

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Spin-Off and Related Transactions

We and Carrols Restaurant Group have operated separately, each as independent public companies, since the completion of the spin-off on May 7, 2012. In order to govern the relationship between Carrols Restaurant Group and us after the spin-off and to provide mechanisms for an orderly transition, we and Carrols Restaurant Group entered into certain agreements which facilitated the spin-off, govern Carrols Restaurant Group's relationship with us after the spin-off and provide for the allocation of employee benefits, tax and other liabilities and obligations. The following is a summary of the terms of the material agreements that were entered into among Carrols Restaurant Group, Carrols Corporation or Carrols, our former direct parent company and a wholly-owned subsidiary of Carrols Restaurant Group, and us prior to the spin-off.

Separation and Distribution Agreement

The separation and distribution agreement, which we refer to as the *separation agreement*, dated as of April 24, 2012, among Carrols Restaurant Group, Carrols and us provides a framework for the relationship between Carrols Restaurant Group and us following the spin-off, requires cooperation between the parties to fulfill the terms of the spin-off and specifies the terms and conditions of the spin-off. The separation agreement provides that, except as otherwise provided in such agreement, we will assume all of the liabilities and perform all of the obligations arising under or relating to the operation of the Pollo Tropical and Taco Cabana businesses whether incurred before or after the spin-off. The separation agreement also contains certain mutual releases of liability and cross indemnification provisions customary for this type of transaction.

The Distribution. Among other things, the separation agreement required the parties to cause our Form 10 Registration Statement which registered our common stock under the Securities Exchange Act of 1934, as amended, to become effective, distribute the information statement, which was an exhibit to the Form 10 Registration Statement, to Carrols Restaurant Group's stockholders, take any necessary action under state securities laws and list our common stock on The NASDAQ Global Market. (Our common stock was approved for listing and is currently traded, on The NASDAQ Global Select Market.)

On April 19, 2012, we effected a 23,161.822 for one stock split to ensure that a sufficient number of shares of our common stock were available for the distribution by Carrols Restaurant Group to its stockholders. Prior to the distribution date, we issued to Carrols Restaurant Group, and Carrols Restaurant Group delivered to the distribution agent, a sufficient number of shares of our common stock for distribution to Carrols Restaurant Group's stockholders on the distribution date. On the distribution date, the record holders of Carrols Restaurant Group's common stock as of the spin-off record date received one share of our common stock for every one share of Carrols Restaurant Group common stock held by such holder.

Additional Covenants. Carrols is currently a guarantor under 38 Pollo Tropical and Taco Cabana restaurant property leases and the primary lessee on five Pollo Tropical restaurant property leases. The separation agreement provides that the parties will cooperate and use their commercially reasonable efforts to obtain the release of such guarantees. Unless and until any such guarantees are released, we agree to indemnify Carrols for any losses or liabilities or expenses that it may incur arising from or in connection with any such lease guarantees.

Carrols is currently a primary lessee of five Pollo Tropical restaurants which it subleases to our subsidiary. The separation agreement provides that the parties will cooperate and use their commercially reasonable efforts to cause us or our subsidiary to enter into a new master lease or individual leases with the lessor with respect to the Pollo Tropical restaurants where Carrols is currently a lessee. The separation agreement provides that until such new master lease or such individual leases are entered into, (i) Carrols will perform its obligations under the master lease for the five Pollo Tropical restaurants where it is a lessee and (ii) the parties will cooperate and use their commercially reasonable efforts to enter into with the lessor a non-disturbance agreement or similar

agreement which shall provide that we or one of our subsidiaries shall become the lessee under such master lease with respect to such Pollo Tropical restaurants and perform Carrols obligations under such master lease in the event of a breach or default by Carrols.

We, on the one hand, and Carrols Restaurant Group and Carrols, on the other hand, will provide each other with information (including, without limitation, corporate books and records) reasonably needed to comply with reporting, disclosure or filing requirements of governmental authorities; for use in judicial, regulatory, administrative and other proceedings or to satisfy audit, accounting, claims, regulatory litigation or similar requirements (other than claims or allegations that one party has against the other); to comply with obligations under the separation agreement and ancillary agreements; or other significant business purposes as mutually determined in good faith by the parties. Carrols Restaurant Group and Carrols, and us, will also provide further assurance to the other of execution and delivery of such other documentation as necessary or desirable to effect the purposes of the separation agreement.

We, on the one hand, and Carrols Restaurant Group and Carrols, on the other hand, have agreed to release each other and each other's respective directors, officers, members, managing members, agents and employees from all liabilities existing or arising from any acts or events occurring or failing to occur on or before the distribution date. These releases are subject to certain exceptions, including claims arising under the separation agreement and the ancillary agreements; any specified liabilities; any liability assumed by a party pursuant to the separation agreement; and liability for claims of third parties for which indemnification or contribution is available under the separation agreement.

Each of Carrols Restaurant Group and Carrols, on the one hand, and us, on the other hand, have agreed to indemnify the other party and the other party's respective affiliates, successors and assigns, stockholders, directors, officers, members, managing members, agents and employees against liabilities arising out of or resulting from the failure of the indemnifying party to perform or discharge liabilities for which it is responsible under the separation agreement; the business of such party; any liability contemplated to be assumed or retained by such party; any breach or failure to perform by such party of its obligations under the separation agreement or ancillary agreements; or any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated or necessary to make the statements not misleading of such party in SEC filed registration statements or information statements. The amount of each party's indemnification obligations is subject to reduction by any insurance proceeds received by the party being indemnified. The separation agreement also specifies procedures with respect to claims subject to indemnification and related matters.

Subject to customary exceptions, the parties have agreed to hold in strict confidence and not to disclose without the other party's written consent, the confidential information of the other party. Each party has sole authority to determine whether to assert or waive attorney-client, work product or other privileges with respect to its own information.

The separation agreement provides for (i) tail insurance and the rights of the parties to report claims for occurrences prior to the separation and set forth procedures for the administration of insured claims and (ii) continuing indemnification provided for our officers, directors and employees under Carrols Restaurant Group's amended and restated certificate of incorporation and amended and restated by-laws, as amended, to the same extent as such persons were previously indemnified prior to the spin-off for acts and omissions occurring at or prior to the distribution date and rights to advancement of expenses relating thereto.

For a period of two years following the distribution date, the parties also agreed not to solicit, recruit or hire any person who is employed by the other party immediately after the distribution date or was employed by the other party at any time during the six month period prior to the distribution date.

Dispute Resolution. The dispute resolution procedures set forth in the separation agreement apply to all disputes, controversies and claims arising out of the separation agreement, the ancillary agreements, the

transactions that any of these agreements contemplate and the parties' commercial or economic relationship relating to the separation agreement or any ancillary agreement except as provided in the separation agreement.

Either party may commence the dispute resolution process by notice to the other party. The dispute notice, and the required written response of the other party, will set forth the position of the respective parties and a summary of their arguments. The parties will then attempt in good faith to resolve the dispute by negotiation between executives of each party who have authority to settle the dispute.

If for any reason the dispute is not resolved through mediation within 90 days of delivery of the dispute notice, then the dispute will be submitted to binding arbitration under the auspices of JAMS.

The parties are not required to negotiate a dispute before seeking relief from an arbitrator regarding a breach of any obligation of confidentiality or any claim where interim relief is sought to prevent serious and irreparable injury. However, the parties are required to make a good faith effort to negotiate the dispute while the arbitration proceeding is pending.

Tax Matters Agreement

The tax matters agreement, which we refer to as the *tax matters agreement*, dated as of April 24, 2012, among Carrols Restaurant Group, Carrols and us (1) governs the allocation of the tax assets and liabilities between Carrols Restaurant Group and Carrols and us, (2) provides for certain restrictions and indemnities in connection with the tax treatment of the spin-off and (3) addresses certain other tax related matters, including, without limitation, those relating to (a) the obligations of Carrols Restaurant Group, Carrols and us with respect to the preparation or filing of tax returns for all periods, and (b) the control of any income tax audits and any indemnities with respect thereto. The tax matters agreement provides that if we take any actions after Carrols Restaurant Group's distribution of our shares in the spin-off that result in or cause the distribution to be taxable to itself or Carrols Restaurant Group, we will be responsible under the tax matters agreement for any resulting taxes imposed on Carrols Restaurant Group or on Carrols or us. Similarly, the tax matters agreement provides that if Carrols Restaurant Group takes any such actions that result in or cause the distribution to be taxable to us or Carrols Restaurant Group, Carrols Restaurant Group will be responsible for such taxes. Further, the tax matters agreement provides that Carrols Restaurant Group and we will each be responsible for 50% of the losses and taxes of Carrols Restaurant Group and its affiliates and Fiesta Restaurant Group and its affiliates resulting from the spin-off not attributable to any such action of Carrols Restaurant Group or us.

Employee Matters Agreement

The employee matters agreement, which we refer to as the *employee matters agreement*, dated as of April 24, 2012, among Carrols Restaurant Group, Carrols and us provides for the transition of employee benefits arrangements and allocates responsibility for certain employee benefits matters on and after the spin-off, including, without limitation, the treatment of our existing welfare benefit plans, savings and retirement plans, equity-based plan and deferred compensation plan, and our establishment of new plans.

The employee matters agreement generally provides for the following:

On or prior to the distribution date, to the extent not previously transferred, certain officers and employees of Carrols Restaurant Group or Carrols that were expected to be employed primarily in Carrols Restaurant Group's business were transferred to us. Except as provided in the employee matters agreement, Carrols retained as of the distribution date all liabilities under the Carrols benefit plans.

Our employees who participated in an existing benefit plan of Carrols Restaurant Group or Carrols transferred participation to a comparable plan that Fiesta Restaurant Group established as contemplated by the employee matters agreement.

We provided Carrols Restaurant Group employees who became our employees with credit for all purposes, including eligibility, vesting, determination of benefit levels and benefit accruals, under any of our benefit programs, policies and plans that we established to the same extent as was recognized by Carrols Restaurant Group. We also credited these employees with the amount of accrued but unused vacation time and other time-off benefits.

Treatment of Carrols Restaurant Group Stock Based Awards. Employees of Carrols Restaurant Group, Carrols and its subsidiaries have been eligible to participate in Carrols Restaurant Group's 2006 Stock Incentive Plan, as amended, which we refer to as the Carrols plan. Under the Carrols plan, Carrols Restaurant Group's compensation committee granted certain stock-based awards, including shares of restricted common stock of Carrols Restaurant Group and stock options to purchase Carrols Restaurant Group common stock to employees and other eligible participants. The outstanding stock-based awards held by employees and other eligible participants of Carrols Restaurant Group, Carrols and its subsidiaries in connection with the spin-off were treated as set forth below. Pursuant to the employee matters agreement Carrols Restaurant Group has continued to maintain the Carrols plan after the completion of the spin-off, and we have established a separate stock incentive plan.

Stock Options. In connection with the spin-off and in accordance with the Carrols plan, all outstanding vested stock options under the Carrols plan were converted on March 5, 2012 into shares of Carrols Restaurant Group common stock using a conversion formula to preserve the intrinsic value of each option to the holder. As part of the spin-off, holders who received shares of Carrols Restaurant Group common stock upon the conversion of vested stock options under the Carrols plan received a distribution of one share of our common stock for one share of Carrols Restaurant Group common stock on the distribution date. On March 5, 2012, Carrols Restaurant Group issued 666,090 shares of Carrols Restaurant Group common stock upon the conversion of outstanding vested stock options under the Carrols plan, and therefore, an additional 666,090 shares of our common stock were issued and distributed on the distribution date.

In connection with the spin-off and in accordance with the Carrols plan, all outstanding unvested stock options under the Carrols plan were converted on March 5, 2012 into restricted shares of Carrols Restaurant Group common stock using a conversion formula to preserve the intrinsic value of each option to the holder. The time period of the restrictions on transferability of the restricted shares of Carrols Restaurant Group common stock issued upon the conversion of unvested stock options under the Carrols plan equal the remaining vesting period of such unvested stock options, and such restricted shares continue to be governed by the terms of the Carrols plan. As part of the spin-off, holders who received restricted shares of Carrols Restaurant Group common stock upon the conversion of unvested stock options under the Carrols plan received a distribution of one restricted share of our common stock for one restricted share of Carrols Restaurant Group common stock on the distribution date subject to the same terms and conditions applicable to the restricted shares of Carrols Restaurant Group common stock, including, but not limited to, the time period remaining on the restrictions on transfer and forfeiture provisions. Following the distribution date, (a) our employees and other eligible participants under the Carrols plan continue to hold restricted shares of Carrols Restaurant Group common stock subject to the terms of the Carrols plan and (b) Carrols Restaurant Group employees and other eligible participants under the Carrols plan continue to hold the restricted shares of our common stock received on the distribution date subject to the terms of the Carrols plan. On March 5, 2012, Carrols Restaurant Group issued 288,435 restricted shares of Carrols Restaurant Group common stock upon the conversion of unvested stock options under the Carrols plan, and therefore, 288,435 restricted shares of our common stock were issued and distributed on the distribution date.

Restricted Stock. In connection with the spin-off and in accordance with the Carrols plan, on the distribution date persons who held shares of Carrols Restaurant Group restricted common stock issued under the Carrols plan received restricted shares of our common stock subject to the same terms and conditions applicable to the restricted shares of Carrols Restaurant Group common stock, including, but not limited to, the time period remaining on the restrictions on transfer and forfeiture provisions. The restricted shares of our common stock received on the distribution date continue to be governed by the terms of the Carrols plan. Each holder of restricted shares of Carrols Restaurant Group common stock received a distribution of one share of our restricted common stock for each one share of Carrols Restaurant Group restricted common

stock held by such holder on the spin-off record date. Following the distribution date, (a) our employees and other eligible participants under the Carrols plan continue to hold restricted shares of Carrols Restaurant Group common stock subject to the terms of the Carrols plan and (b) Carrols Restaurant Group employees and other eligible participants under the Carrols plan continue to hold the restricted shares of our common stock received on the distribution date subject to the terms of the Carrols plan. On the distribution date, 434,400 restricted shares of Carrols Restaurant Group common stock issued under the Carrols plan, which includes the 288,435 restricted shares of Carrols Restaurant Group common stock issued upon the conversion of unvested stock options under the Carrols plan, were outstanding, and therefore, 434,400 restricted shares of our common stock were issued and distributed on the distribution date.

Transition Services Agreement

Under the transition services agreement, which we refer to as the *transition services agreement*, dated as of April 24, 2012, entered into by Carrols Restaurant Group, Carrols, us and Carrols LLC (solely with respect to indemnification), Carrols Restaurant Group and Carrols agreed to provide certain support services (including accounting, tax accounting, treasury management, internal audit, financial reporting and analysis, human resources, and employee benefits management, information systems, restaurant systems support, legal, property management and insurance and risk management services) to us, and we agreed to provide certain limited management services (including certain legal services) to Carrols Restaurant Group and Carrols.

The transition services agreement establishes a baseline charge for each category or component of services to be provided and/or pro-rates the overall cost of such category or categories of services between Fiesta Restaurant Group and Carrols Restaurant Group and its subsidiaries. The price to be charged for each service will be based on the allocated cost of providing such service.

The transition services agreement became effective upon the completion of the spin-off on the distribution date and it will continue for a minimum term of three years, provided that we may extend the term of the transition services agreement by one additional year upon 90 days prior written notice to Carrols Restaurant Group and Carrols, provided further that we may terminate the transition services agreement with respect to any service provided thereunder at any time and from time to time upon 90 days prior written notice to Carrols Restaurant Group and Carrols.

Under the transition services agreement, the parties will exercise at least the same degree of care as it has historically exercised in performing the services including at least with the same level of quality, responsiveness and timeliness and utilizing individuals of such experience, training and skill.

The transition services agreement provides that each party will maintain, books and records in reasonable and customary detail pertaining to the provision of services. Each party will have the right to review such records.

Under the transition services agreement, each party agrees to use best efforts to cooperate with the other in carrying out the provisions of the transition services agreement, including, but not limited to, exchanging information, providing electronic systems used in connection with the services, using commercially reasonable efforts to obtain all consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations under the transition services agreement. In contemplation of termination of any services, each party agrees to cooperate with the other in all reasonable respects in transitioning such services.

The transition services agreement also provides that, subject to customary exception, each party has agreed to take all reasonable measures to maintain the confidentiality of confidential information and disclose such information only to its employees with a need to know such information. In addition, each party's confidential information supplied or developed by such party will remain the sole and exclusive property of such party.

Each party will indemnify the other from all liabilities (i) relating to a breach of the agreement or (ii) (1) incurred by a party or its affiliates or (2) of third parties unrelated to a party or its affiliates, in the case of (1) and (2) caused by the gross negligence or willful misconduct of any employee of an indemnifying party or its

affiliates in connection with such party's performance under the transition services agreement, except to the extent that any such liabilities are caused by the indemnified party. The procedures with respect to claims subject to indemnification are governed by the separation agreement.

The parties have agreed to use their respective reasonable best efforts to resolve expeditiously any disputes between them with respect to the matters covered by the transition services agreement. In the event that the parties are unable to resolve a dispute in the manner and within the time periods specified in the transition services agreement, the dispute will be resolved in accordance with the arbitration procedures set forth in the separation agreement.

Other

We have entered into a Registration Rights Agreement or Registration Rights Agreement with the JCP Group having terms substantially similar in all material respects to the registration rights agreement between Carrols Restaurant Group and the JCP Group with respect to the shares of Carrols Restaurant Group common stock previously held by the JCP Group. The Registration Rights Agreement provides that the JCP Group and their affiliates may make up to five (5) demands to register the shares of our common stock held by them under the Securities Act. The Registration Rights Agreement also provides that whenever we register shares of our common stock under the Securities Act (other than on a Form S-4 or Form S-8), then the JCP Group and its affiliates will have the right to register their shares of our common stock as part of that registration. The registration rights under the Registration Rights Agreement are subject to the rights of the managing underwriters, if any, to reduce or exclude certain shares owned by the JCP Group and their affiliates from an underwritten registration. Except as otherwise provided in the Registration Rights Agreement, the Registration Rights Agreement requires us to pay for all costs and expenses, other than underwriting discounts, commissions and underwriters' counsel fees, incurred in connection with the registration of the common stock and to indemnify the JCP Group against certain liabilities, including liabilities under the Securities Act.

Pursuant to a letter dated as of July 21, 2011, Brian P. Friedman resigned as a member of the board of directors of Carrols Restaurant Group effective on the distribution date. The letter agreement stated that Mr. Friedman would resign as a member of the board of directors of Carrols Restaurant Group effective on the date of the consummation of the spin-off, provided that the Voting Agreement dated as of July 27, 2011 between Carrols Restaurant Group, Inc. and Jefferies Capital Partners IV L.P., Jefferies Employee Partners IV LLC and JCP Partners IV LLC is not terminated pursuant to the first sentence of Article V thereof or Mr. Friedman and another designee of Jefferies Capital Partners are not elected to the board of directors of Fiesta Restaurant Group, Inc. on or prior to the consummation of the spin-off.

Jefferies LLC acted as a joint book-running manager of an offering 3,335,000 shares of our common stock offered and sold by the JCP which closed on March 27, 2013. The JCP Group owns an aggregate of 13.6% of our outstanding common stock of as of April 17, 2013. Currently, Brian P. Friedman and Nicholas Daraviras are members of our board of directors. Mr. Friedman is President of Jefferies Capital Partners and its predecessor, director and executive officer of Jefferies Group LLC and the managing member of Jefferies Capital Partners LLC, and Mr. Friedman may be deemed to beneficially own the shares held by the JCP Group. In addition, Jefferies LLC received a portion of the transaction related fees and reimbursement of certain expenses to be paid by the JCP Group in connection with the offering for acting as a joint book-running manager.

Related Party Transaction Procedures

The board of directors has assigned responsibility for reviewing related party transactions to our Audit Committee. The board of directors and the Audit Committee have adopted a written policy pursuant to which certain transactions between us or our subsidiaries and any of our directors or executive officers must be submitted to the Audit Committee for consideration prior to the consummation of the transaction as required by the rules of the SEC. The Audit Committee reports to the board of directors on all related party transactions considered.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table summarizes historical compensation awarded or paid to, or earned by, Timothy P. Taft, Lynn S. Schweinfurth, and James E. Tunnessen (collectively, the Named Executive Officers) for the fiscal years ended January 1, 2012 and December 30, 2012.

Name and Principal Position	Year	Salary (\$)	Bonus (1)(\$)	Stock Awards (2)(\$)	Non- Equity Nonqualified Incentive Deferred			All Other Compensation (\$)	Total (\$)
					Option Award (\$)	Plan Compensation (\$)	Earnings (3)(\$)		
Timothy P. Taft Chief Executive Officer and President	2012	\$ 500,004	\$ 420,000	\$ 1,104,306	sign on			\$ 881	\$ 3,025,191
				\$ 250,000	2013 related				
				\$ 250,000	2014 related				
				\$ 250,000	2015 related				
				\$ 250,000	2016 related				
				\$ 2,104,306	Total (4)				
	2011	\$ 191,668	\$ 140,000				\$ 133	\$ 331,801	
Lynn S. Schweinfurth (5) Vice President, Chief Financial Officer and Treasurer	2012	\$ 147,880	\$ 130,000	\$ 756,000(6)				\$ 1,033,880	
James E. Tunnessen (7) Former Executive Vice President, Pollo Tropical	2012	\$ 317,076	\$ 299,038	\$ 78,700			\$ 290,653(8)	\$ 985,467	
	2011	\$ 307,836	\$ 291,847	\$ 38,250				\$ 637,933	

- (1) For the 2012 fiscal year, the Compensation Committee did not approve and adopt a formal bonus plan since the spin-off was not completed until May 2012. Consequently, bonuses for fiscal 2012 were determined at the discretion of the Compensation Committee, with input from the Chief Executive Officer, and were based on an individual's achievement of certain goals and objectives as well as our performance in fiscal 2012 as compared to fiscal 2011. Amounts include cash bonuses paid in fiscal year 2013 and 2012 with respect to services rendered in fiscal year 2012 and 2011, respectively.
- (2) The amounts shown represents the aggregate grant date fair value of restricted stock granted and approved by the Compensation Committee in each of the fiscal years presented and is consistent with the grant date fair value of the award computed in accordance with FASB ASC Topic 718. There were no forfeitures in 2012 by the Named Executive Officers. These amounts reflect the grant date fair value for these awards and do not correspond to the actual value that will be recognized by the executives. The actual value, if any, that an executive may realize will depend on the stock price at the date of vesting. These grants are included and discussed further in the tables included below under Outstanding Equity Awards at Fiscal Year-End.
- (3) These amounts represent the above-market portion of earnings on compensation deferred by the Named Executive Officers under our nonqualified Deferred Compensation Plan. Earnings on deferred compensation are considered to be above-market to the extent that the rate of interest exceeds 120% of the applicable federal long-term rate. At December 31, 2012 and 2011, 120% of the federal long-term rate was 2.85% and 3.37% per annum, respectively, and the interest rate paid to participants was 8% per annum.
- (4) Pursuant to the Taft Letter Agreement (as defined below), on June 8, 2012, the one month anniversary of the date that the shares of Fiesta Restaurant Group common stock began trading publicly, Mr. Taft received a grant of 165,563 shares of our restricted common stock (the Initial Grant) which equaled the aggregate value of \$2 million based upon the average trading price of our common stock for the first four weeks the shares of our common stock commenced trading publicly. The restricted shares of our common stock granted to Mr. Taft will vest over four years at the rate of 25% per annum beginning on the first anniversary of the date of grant and are subject to provisions of the Fiesta Plan. The Initial Grant was awarded as part of a single grant with approximately one-half of such grant intended as a sign on award and one-half intended to cover a portion, or \$250,000, of the aggregate value of the shares of restricted stock that may be granted for each of the 2013, 2014, 2015 and 2016 compensation years to Mr. Taft. Consequently, the aggregate value of any award of restricted stock that Mr. Taft has the potential to receive in each such compensation year will be reduced by \$250,000.
- (5) Ms. Schweinfurth was appointed Vice President, Chief Financial Officer and Treasurer of Fiesta Restaurant Group effective July 16 2012.
- (6) Represents a one-time sign on award of 50,000 shares of our restricted stock granted to Ms. Schweinfurth on July 16, 2012 in connection with her appointment as our Vice President, Chief Financial Officer and Treasurer. For a further discussion of such stock award, see Schweinfurth Letter Agreement below.
- (7) Mr. Tunnessen retired from Fiesta Restaurant Group on January 31, 2013.
- (8) Pursuant to an Executive Retirement Agreement dated as of September 28, 2012 between us and Mr. Tunnessen, the amount represents eleven months of Mr. Tunnessen's 2012 base salary payable six months and one day following January 31, 2013, the date of Mr. Tunnessen's retirement from Fiesta Restaurant Group. See Tunnessen Retirement Agreement below.

Taft Letter Agreement

Pursuant to the terms of an offer letter (the "Taft Letter Agreement") between Carrols Restaurant Group and Mr. Taft entered into on July 19, 2011 (and assigned to us in connection with the spin-off), Mr. Taft earns an annual base salary of \$500,000 and will be eligible for annual merit increases beginning in 2013 based upon recommendations of our board of directors and Compensation Committee. Mr. Taft will also participate in our Executive Bonus Plan (the "Executive Bonus Plan") and will be eligible to receive a bonus of up to 100% of his base salary with 50% of such bonus based upon attainment of objectives to be established by our Compensation Committee and 50% of such bonus based upon increases in shareholder value (as defined in the Executive Bonus Plan).

Pursuant to the Taft Letter Agreement, on June 8, 2012, the one month anniversary of the date that the shares of Fiesta Restaurant Group common stock began trading publicly, Mr. Taft received a grant of 165,563 shares of our restricted common stock (the "Initial Grant") which equaled the aggregate value of \$2 million based upon the average trading price of our common stock for the first four weeks the shares of our common stock commenced trading publicly. The restricted shares of our common stock granted to Mr. Taft will vest over four years at the rate of 25% per annum beginning on the first anniversary of the date of grant and are subject to provisions of the Fiesta Plan.

The Initial Grant was awarded as part of a single grant with approximately one-half of such grant intended as a sign on award and one-half intended to cover a portion, or \$250,000, of the aggregate value of the shares of restricted stock that may be granted for each of the 2013, 2014, 2015 and 2016 compensation years to Mr. Taft. Consequently, the aggregate value of any award of restricted stock that Mr. Taft has the potential to receive in each such compensation year will be reduced by \$250,000.

The Taft Letter Agreement also provides that in the event Mr. Taft is terminated without Cause (as defined in the Taft Letter Agreement), he shall be entitled to receive a severance payment equal to his twelve months base salary and the prorated portion of his bonus payable, provided that a bonus would have been payable.

Mr. Taft's employment as our Chief Executive Officer and President and the Taft Letter Agreement were approved by the compensation committee of the board of directors of Carrols Restaurant Group prior to the spin-off.

Schweinfurth Letter Agreement

Pursuant to the terms of an offer letter (the "Schweinfurth Letter Agreement") between Fiesta Restaurant Group and Ms. Schweinfurth entered into on June 29, 2012, Ms. Schweinfurth will earn an annual base salary of \$320,000 and will be eligible for annual merit increases beginning in 2014 based upon recommendations of our Chief Executive Officer and Compensation Committee. Ms. Schweinfurth will also participate in our Executive Bonus Plan and will be eligible to receive a bonus of up to 90% of her annual base salary with portions of such bonus based upon attainment of objectives to be established by our Compensation Committee and increases in shareholder value (as defined in the Executive Bonus Plan). Any bonus earned by Ms. Schweinfurth for 2012 will be pro-rated.

Pursuant to the Schweinfurth Letter Agreement, within 30 days of July 16, 2012, the date of Ms. Schweinfurth's commencement of employment with the Company, Ms. Schweinfurth received a one-time sign on grant of 50,000 shares of restricted common stock of the Company in connection with her appointment as our Vice President, Chief Financial Officer and Treasurer. The restricted shares of the Company's common stock granted to Ms. Schweinfurth will vest over four years at the rate of 25% per annum beginning on the first anniversary of the date of grant and will be subject to provisions of the Fiesta Plan.

The Schweinfurth Letter Agreement also provides that in the event Ms. Schweinfurth is terminated without Cause (as defined in the Schweinfurth Letter Agreement), she will be entitled to receive a severance payment equal to her twelve months base salary and the pro-rated portion of her bonus payable, provided that a bonus would have been payable.

Tunnessen Retirement Agreement

On September 28, 2012, we entered into an Executive Retirement Agreement with James E. Tunnessen, our former Executive Vice President of Pollo Tropical (the Tunnessen Agreement). Pursuant to the Tunnessen Agreement, Mr. Tunnessen retired from Fiesta Restaurant Group on January 31, 2013 (the Retirement Date). Under the Tunnessen Agreement, Mr. Tunnessen (i) will receive a lump sum equal to eleven months of his 2012 base salary payable six months and one day following the Retirement Date and (ii) was entitled to receive a bonus for the 2012 fiscal year, subject to the fulfillment of his obligations under the Tunnessen Agreement, and the performance of Fiesta Restaurant Group and Pollo Tropical.

Mr. Tunnessen, pursuant to the Tunnessen Agreement, agreed, for a period of twenty-four months following the Retirement Date, not to directly or indirectly solicit for employment or employ any person who is or was employed by Fiesta Restaurant Group within six months prior to the Retirement Date.

Additionally, under the Tunnessen Agreement, Mr. Tunnessen agreed for a period of twelve calendar months following the Retirement Date, not to be employed by or associated with as an employee, consultant, director, shareholder, or in any other capacity, any company operating Hispanic-themed quick service, quick casual or casual dining restaurants which feature chicken as the primary or central menu item and which also competes with our Pollo Tropical concept.

Also, under the Tunnessen Agreement, Mr. Tunnessen's Change of Control/Severance Agreement, dated December 13, 2006, with Carrols Restaurant Group, and Carrols was terminated on September 28, 2012.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information with respect to the value of all equity awards that were outstanding at the December 30, 2012 fiscal year end for each of the Named Executive Officers.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercisable Options (#)	Equity Incentive Plan Awards: Number of Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested (\$)
Timothy P. Taft (2)						165,563	\$ 2,503,313		
Lynn S. Schweinfurth (3)						50,000	\$ 756,000		
James E. Tunnessen (4)						15,692	\$ 237,263		

- (1) The market value of the restricted stock awards was determined based on the closing price of our common stock on the last trading day of the fiscal year, December 28, 2012, which was \$15.12.
- (2) In June 2012, Mr. Taft was granted 165,563 shares of restricted common stock pursuant to the Taft Letter Agreement and the Fiesta Plan. The restricted stock award vests over of period of four years with one-fourth of such restricted shares vesting on the first anniversary of the grant date and annually on the anniversary of the grant date thereafter. For a further discussion of such stock award, see Summary Compensation Table and Summary Compensation Table Taft Letter Agreement above.
- (3) Ms. Schweinfurth was appointed Vice President, Chief Financial Officer and Treasurer of Fiesta Restaurant Group effective July 16 2012. In July 2012, Ms. Schweinfurth was granted 50,000 shares of restricted common stock pursuant to the Schweinfurth Letter Agreement and the Fiesta Plan. The restricted stock award vests over of period of four years with one-fourth of such restricted shares vesting on the first anniversary of the grant date and annually on the

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anniversary of the grant date thereafter. For a further discussion of such stock award, see Summary Compensation Table and Summary Compensation Table Schweinfurth Letter Agreement above.

- (4) In August 2012, Mr. Tunnessen was granted 5,000 shares of restricted common stock pursuant to the Fiesta Plan which were forfeited upon the retirement of Mr. Tunnessen from Fiesta Restaurant Group on January 31, 2013. The restricted stock award vested over of period of four years with one-fourth of such restricted shares vesting on the first anniversary of the grant date and annually on the anniversary of the grant date thereafter.

Fiesta Restaurant Group 2012 Stock Incentive Plan

Our board of directors adopted a 2012 Stock Incentive Plan, which was approved by Carrols, our sole stockholder before the completion of the spin-off. The following is a general description of the Fiesta Plan.

Purpose. The purpose of the Fiesta Plan is to attract and retain persons eligible to participate in the Fiesta Plan, such as our officers, employees, associates, directors and any consultants or advisors providing services to us or our affiliates, motivate these individuals to achieve our long-term goals, and further align the interests of these individuals with the interests of our stockholders.

Administration. The Fiesta Plan is administered by our Compensation Committee. Our board of directors can also administer the Fiesta Plan if a compensation committee or other committee has not been appointed or is not eligible to act. The Compensation Committee has the authority to (1) select Fiesta Plan participants, (2) determine whether and to what extent stock options, stock appreciation rights and stock awards are to be granted and the number of shares of stock to be covered by each award, (3) approve forms of agreement for use under the Fiesta Plan, (4) determine terms and conditions of awards (including, but not limited to, the option price, any vesting restriction or limitation, any vesting acceleration or waiver or forfeiture, and any right of repurchase, right of first refusal or other transfer restriction regarding any award), (5) modify, amend or adjust the terms and conditions of any award, (6) determine the fair market value of our common stock, and (7) determine the type and amount of consideration to be received by us for any stock award issued. Any determination with respect to any award will be made in the sole discretion of the Compensation Committee.

Eligibility. Any employee, officer, director, associate, advisor or consultant to us or any of our affiliates is generally eligible to participate in the Fiesta Plan. In each case, the Compensation Committee selects the actual grantees.

Awards. The Fiesta Plan provides for the grant of stock options and stock appreciation rights (SARs), stock awards, performance awards, outside director stock options and outside director stock awards. No award may be granted under the Fiesta Plan on or after May 7, 2022 or such earlier time as our board of directors may determine.

Shares Subject to the Fiesta Plan. The aggregate number of shares of our common stock that may be delivered pursuant to awards granted under the Fiesta Plan is 3,300,000 shares. The maximum number of shares that may be covered by stock options, SARs and stock awards, in the aggregate, granted to any one participant during any calendar year is 300,000 shares and in the case of an employee covered by Section 162(m) of the Internal Revenue Code of 1986, as amended or the Code , if any such awards are cancelled, the number of shares subject to such award shall continue to count against the foregoing limit of 300,000 shares. Any award settled in cash will be based on the fair market value of the shares of stock subject to such award. If an award granted under the Fiesta Plan terminates, lapses or is forfeited without the delivery of shares or any shares of restricted stock granted under the Fiesta Plan are forfeited, then the shares covered by the terminated, lapsed or forfeited award or the forfeited restricted stock, as applicable, will again be available for grant.

In the event of any change affecting the outstanding shares of our common stock by reason of, among other things, a stock dividend, special cash dividend, stock split, combination or exchange of shares, recapitalization or other change in our capital structure, our corporate separation or division (including, but not limited to, a split-up, spin-off, split-off or other distribution to our stockholders, other than a normal cash dividend), sale by us of all or a substantial portion of our assets (measured on either a stand-alone or consolidated basis), reorganization, rights offering, partial or complete liquidation, merger or consolidation in which we are the surviving corporation or

any event similar to the foregoing, the Compensation Committee, in its discretion, may generally make such substitution or adjustment as it deems equitable as to (1) the number or kind of shares that may be delivered under the Fiesta Plan and/or the number or kind of shares subject to outstanding awards, (2) the exercise price of outstanding options, outside director options and SARs and/or (3) other affected terms of the awards.

Options and Stock Appreciation Rights. Under the Fiesta Plan, the Compensation Committee may grant both options intended to constitute incentive stock options within the meaning of Section 422 of the Code and non-qualified stock options. The exercise price for options will be determined by the Compensation Committee, but the exercise price cannot be less than 100% of the fair market value of our common stock on the grant date. In the case of incentive stock options granted to an employee who, immediately before the grant of an option, owns stock representing more than 10% of the voting power of all classes of our stock or the stock of any of our subsidiaries, the exercise price cannot be less than 110% of the fair market value of a share of our common stock on the grant date and the incentive stock option will terminate on a date not later than the fifth anniversary of the date on which such incentive stock option was granted.

The Compensation Committee determines when, and upon what terms and conditions, options granted under the Fiesta Plan will be exercisable, except that no option will be exercisable more than 10 years after the date on which it is granted. The Compensation Committee determines the vesting of stock options at the time of grant, except that no stock option shall become vested earlier than the first anniversary of, or later than the seventh anniversary of, the date of grant of such stock option, and the participant must remain in active employment or service with us or an affiliate until the applicable vesting date. The exercise price may generally be paid (1) with cash, (2) unrestricted and vested shares of our common stock owned by the optionee, (3) unless otherwise prohibited by law for either us or the optionee, by irrevocably authorizing a third party to sell shares (or a sufficient portion of the shares) of our common stock acquired upon the exercise of the stock option and remit to us a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise, or (4) a combination of the above methods.

The Compensation Committee may only grant SARs under the Fiesta Plan as a standalone award. The Compensation Committee determines the term of a SAR at the time of grant, except that no SAR will be exercisable more than 10 years after the date on which it is granted. The Compensation Committee determines the vesting of a SAR at the time of grant, except that no SAR shall become vested earlier than the first anniversary of the date of, or later than the seventh anniversary of, the date of grant of such SAR, and the participant must remain in active employment or service with us or an affiliate until the applicable vesting date. When a SAR recipient exercises his or her SAR with respect to a share, the recipient is entitled to an amount equal to the difference between the fair market value of a share of our common stock on the SAR's grant date compared to the fair market value of such a share on the date the SAR is exercised. The amount will be paid in the form of either cash or our common stock, depending on the terms of the applicable award agreement.

Unless otherwise provided in the applicable award agreement, stock options or SARs granted under the Fiesta Plan have the following terms:

If a participant's employment or provision of services terminates by reason of death or Disability (as defined in the Fiesta Plan), all stock options or SARs held by such participant will become fully vested and exercisable and may be exercised until the earlier of the one year anniversary of such death or termination of employment or services, as applicable, and the expiration of the stock option's or SAR's term.

If a participant's employment or provision of services is terminated and the participant is age 65 or older and has completed at least five years of service for us (Retirement), any stock option or SAR held by such participant may thereafter be exercised, to the extent it was exercisable at the time of termination, until the earlier of the six month anniversary of such termination of employment or provision of services, and the expiration of such stock option's or SAR's term. Any stock option or SAR that is unvested or unexercisable on the date of termination shall immediately terminate.

If a participant's employment or provision of services terminates involuntarily without Cause (as defined in the Fiesta Plan), and for reasons other than death, Disability or Retirement, any stock option or SAR held by such participant may thereafter be exercised, to the extent it was exercisable at the time of termination, until the earlier of the three month anniversary of such termination of employment or provision of services, and the expiration of such stock option's or SAR's term. Any stock option or SAR that is unvested or unexercisable on the date of termination shall immediately terminate.

If a participant's employment or provision of services terminates involuntarily for Cause, all outstanding stock options or SARs held by such participant (whether vested or unvested) shall immediately terminate.

If a participant's employment or provision of services is terminated by the participant for any reason other than involuntary termination for Cause, involuntary termination without Cause, death, Disability or Retirement, any stock option or SAR held by such participant may thereafter be exercised, to the extent it was exercisable at the time of termination, until the earlier of the one month anniversary of such termination of employment or provision of services, and the expiration of such stock option's or SAR's term. Any stock option or SAR that is unvested or unexercisable at the date of termination shall immediately terminate.

Stock Awards. The Compensation Committee may grant awards of shares, restricted shares and restricted stock units upon the terms, conditions, performance requirements, restrictions, forfeiture provisions, contingencies and limitations as it determines. The Compensation Committee determines the vesting of stock awards at the time of grant, except that no stock award shall become vested earlier than the first anniversary of, or later than the seventh anniversary of, the date of grant of such stock award, and the participant must remain in active employment or service with us or an affiliate until the applicable vesting date.

Except as otherwise provided in the applicable award agreement, if a participant's employment or provision of services is (1) terminated by death, Disability or by us for any reason other than Cause, all stock underlying a stock award will become fully vested and non-forfeitable, and (2) terminated by us for Cause or by the participant for any reason other than death or Disability, all stock underlying a stock award, to the extent unvested at the time of termination, will be forfeited.

Performance Awards. The right of a participant to exercise or receive a grant or settlement of any award, and its timing, may be subject to performance conditions specified by the Compensation Committee at the time of grant. The Compensation Committee may use business criteria and other measures of performance it deems appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase amounts payable under any award subject to performance conditions, except as limited under the Fiesta Plan in the case of a performance award intended to qualify as performance-based compensation under Section 162(m) of the Code.

Awards granted under the Fiesta Plan may be designed to qualify as performance-based compensation within the meaning of Section 162(m) of the Code. Pursuant to Section 162(m) of the Code, we generally may not deduct for federal income tax purposes compensation paid to our chief executive officer or our three other highest paid executive officers (other than our chief financial officer) to the extent that any of these persons receive more than \$1 million in compensation in any single year. However, if the compensation qualifies as performance-based for Section 162(m) purposes, we can deduct for federal income tax purposes the compensation paid even if such compensation exceeds \$1 million in a single year.

The performance goals for performance awards intended to qualify as performance-based compensation under Section 162(m) of the Code shall be based on one or more of the following business criteria:

Earnings before any or all of interest, tax, depreciation or amortization (actual and adjusted and either in the aggregate or on a per-share basis);

Earnings (either in the aggregate or on a per-share basis);

Net income or loss (either in the aggregate or on a per-share basis);

Operating profit;

Cash flow (either in the aggregate or on a per-share basis);

Free cash flow (either in the aggregate on a per-share basis);

Non-interest expense;

Costs;

Gross revenues;

Reductions in expense levels;

Operating and maintenance cost management and employee productivity;

Share price or total stockholder return (including growth measures and total stockholder return or attainment by the shares of a specified value for a specified period of time);

Net economic value;

Economic value added or economic value added momentum;

Strategic business criteria, consisting of one or more objectives based on meeting specified revenue, sales, market share, market penetration, geographic business expansion goals, objectively identified project milestones, production volume levels, cost targets and goals relating to acquisitions or divestitures;

Return on average assets or average equity;

Achievement of objectives relating to diversity, employee turnover or other human capital metrics;

Results of customer satisfaction surveys or other objective measures of customer experience; and/or

Debt ratings, debt leverage, debt service, financings and refinancings.

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The Compensation Committee may, on the grant date of an award intended to qualify as performance-based compensation, provide that the formula for such award may include or exclude items to measure specific objectives, such as losses from discontinued operations, extraordinary gains or losses, the cumulative effect of accounting changes, acquisitions or divestitures, foreign exchange impacts and any unusual, non-recurring gain or loss.

The levels of performance required with respect to any performance goals may be expressed in absolute or relative levels and may be based upon a set increase, set positive result, maintenance of the status quo, set decrease or set negative result. The Compensation Committee shall specify the weighting (which may be the same or different for multiple performance goals) to be given to each performance goal for purposes of determining the final amount payable with respect to any performance award. Any one or more of the performance goals or the business criteria on which they are based may apply to the participant, a department, unit, division or function within Fiesta Restaurant Group (except for total stockholder return or earnings per share criteria) or any one or more subsidiaries, and may apply either alone or relative to the performance of other businesses or individuals (including industry or general market indices).

Settlement of performance awards may be in cash or our common stock, or other awards, or other property, in the discretion of the Compensation Committee. Any cash-settled performance award will be based on the fair market value of the shares of our common stock subject to the performance award at the time of settlement. The Compensation Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with a performance award, but may not exercise discretion to increase any such amount payable in respect of a performance award intended to constitute performance-based compensation for Section 162(m) of the Code. Subject to the requirements of Section 162(m) of the Code, the Compensation Committee shall specify

the circumstances in which a performance award shall be forfeited or paid in the event of a termination of employment at least six months prior to the end of a performance period or settlement of a performance award, and other terms relating to such performance award.

Outside Director Stock Options. On the date of the first annual meeting of stockholders of the company following the spin-off, and on the date of the annual meeting of our stockholders during each fiscal year thereafter, each outside director may in the discretion of the administrator be granted outside director stock options in an amount determined by the Compensation Committee.

The exercise price per share of common stock purchasable under an outside director stock option will be the Fair Market Value (as defined under the Fiesta Plan) per share on the date the outside director stock option is granted.

Unless otherwise provided in the applicable award agreement, an outside director stock option shall become vested and non-forfeitable with respect to one-fifth of the stock subject to such outside director stock option on the first anniversary of the date the outside director stock option is granted, with an additional one-fifth of the stock subject to such outside director stock option becoming vested and non-forfeitable on each of the second, third, fourth and fifth anniversaries of the date of grant, provided that the outside director shall have continuously remained a director of Fiesta Restaurant Group through the applicable vesting date. Any outside director stock option that is unvested at the date of termination of the outside director's provision of services shall be forfeited upon such termination. Outside director stock options will be evidenced by option agreements, in a form approved by the Compensation Committee.

Outside director stock options may be exercised in the same manner as provided for stock options.

No outside director stock option shall be exercisable more than seven years after the date the outside director stock option is granted.

An outside director stock option (i) shall be transferable by the outside director to a Family Member (as defined under the Fiesta Plan) of the outside director, provided that (A) any such transfer shall be by gift with no consideration and (B) no subsequent transfer of such outside director stock option shall be permitted other than by will or the laws of descent and distribution, and (ii) shall not otherwise be transferable except by will or the laws of descent and distribution. An outside director stock option shall be exercisable, during the outside director's lifetime, only by the outside director or by the guardian or legal representative of the outside director, it being understood that the terms "holder" and "outside director" include the guardian and legal representative of the outside director named in the applicable option agreement and any person to whom the outside director stock option is transferred (X) pursuant to the first sentence of this paragraph or pursuant to the applicable option agreement or (Y) by will or the laws of descent and distribution.

Outside Director Stock Awards. Each outside director appointed to our board of directors received within 45 days of the distribution date, stock awards of an aggregate fair market value of \$100,000 on the date of grant. Following the distribution date, each outside director appointed to our board of directors will receive as of the date of such appointment, stock awards of an aggregate fair market value of \$100,000 on the date of grant.

On the date of each annual meeting of Fiesta Restaurant Group beginning with the first annual meeting of stockholders following the spin-off and on the date of each annual meeting of our stockholders during each fiscal year thereafter, outside directors will receive a number of shares of our restricted common stock having an aggregate fair market value of \$25,000 on the date of grant or such other amount as determined by the administrator.

Pursuant to the Fiesta Plan, on June 8, 2012, (i) Jack A. Smith, the Chairman of our board of directors and an outside director, was granted a stock award comprised of that number of shares of stock having an aggregate fair market value of \$25,000, (ii) Stephen P. Elker, an outside director, was granted a stock award comprised of

that number of shares of stock having an aggregate fair market value of \$100,000, (iii) Brian P. Friedman and Nicholas Daraviras, each an outside director, were each granted a stock award comprised of that number of shares of stock having an aggregate fair market value of \$100,000, provided that if either Mr. Friedman or Mr. Daraviras resigns as a director of Fiesta Restaurant Group, any person nominated or otherwise designated by the JCP Group or their respective affiliates to our board of directors to replace Mr. Friedman, Mr. Daraviras or any other director of Fiesta Restaurant Group designated and nominated by the JCP Group or their affiliates, such person shall not receive a stock award of an aggregate fair market value of \$100,000 on the date of grant pursuant to the Fiesta Plan.

Unless otherwise provided in the applicable award agreement, with respect to outside director stock awards granted to directors upon such directors appointment to our board of directors, an outside director stock award will vest in installments over five years with one-fifth of the shares underlying the outside director stock award vesting on the first anniversary of the date such award is granted and an additional one-fifth of the underlying shares vesting on each subsequent anniversary of such grant date, provided that the outside director continuously remains a director through the applicable vesting date. Unless otherwise provided in the applicable award agreement, with respect to outside director stock awards granted annually on the date of each annual meeting of stockholders (including the grant to Mr. Smith stated above), an outside director stock award will vest in installments over three years with one-third of the shares underlying the outside director stock award vesting on the first anniversary of the date such award is granted and an additional one-third of the underlying shares vesting on each subsequent anniversary of such grant date, provided that the outside director continuously remains a director through the applicable vesting date. Any unvested shares underlying an outside director stock award will be immediately forfeited upon the outside director ceasing to be a director.

Change of Control. In the event of a Change in Control (as defined in the Fiesta Plan), (i) outstanding and unvested stock options, outside director stock options and SARs will be fully vested and exercisable, (ii) restrictions on outstanding stock awards and outside director stock awards will lapse and the shares relating to such awards will become fully vested and transferable, and (iii) provided it would not trigger adverse tax consequences under Section 409A of the Code, outstanding awards will be subject to any agreement of acquisition, merger or reorganization that effects such Change in Control and that provides for the continuation of outstanding awards by us, assumption of outstanding awards, substitution of equivalent awards for the outstanding awards or settlement of each share of stock subject to an outstanding award for the change in control price (as defined in the Fiesta Plan).

Fiesta Restaurant Group Deferred Compensation Plan

We have adopted a Deferred Compensation Plan for employees not eligible to participate in our Retirement Savings Plan (the Retirement Plan) because they have been excluded as highly compensated employees (as so defined in the Retirement Plan), to voluntarily defer portions of their base salary and annual bonus. An eligible employee may elect, on a deferral agreement, to defer all or a specified percentage of base salary and, if applicable, all or a specified percentage of cash bonuses. All amounts deferred by the participants earn interest at 8% per annum. We do not match any portion of the funds.

DIRECTOR COMPENSATION

The following table summarizes the compensation we paid to our non-employee directors during the fiscal year ended December 30, 2012. Compensation information for Timothy P. Taft, our Chief Executive Officer and President, is set forth in the Summary Compensation Table above. Alan Vituli ceased to be a member of our board of directors on February 27, 2012. Daniel T. Accordino, Clayton E. Wilhite and Joel M. Handel resigned from our board of directors effective on the completion of the spin-off on May 7, 2012.

Name	Fees Earned or Paid in Cash (1) (\$)	Stock Award (2) (\$)	Option Award (\$)	Non-Equity Incentive Plan Compensation	Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Stacey Rauch	\$ 22,750	\$ 100,002					\$ 122,752
Brian P. Friedman	\$ 21,250	\$ 100,002					\$ 121,252
Stephen P. Elker	\$ 27,250	\$ 100,102					\$ 127,252
Nicholas Daraviras	\$ 21,125	\$ 100,102					\$ 121,127
Barry J. Alperin	\$ 21,625	\$ 100,010					\$ 121,635
Jack A. Smith	\$ 33,625	\$ 37,504					\$ 71,129

- (1) The amounts listed in this column include the payment of director fees.
- (2) On June 8, 2012, Ms. Rauch, Mr. Friedman, Mr. Elker, Mr. Daraviras and Mr. Smith were granted 7,868, 7,868, 7,868, 7,868 and 1,967, restricted shares of common stock, respectively, valued at \$12.71 per share under the Fiesta Plan. On July 5, 2012, Mr. Alperin was granted 6,883 restricted shares of common stock valued at \$14.53 per share under the Fiesta Plan. On August 1, 2012, Mr. Smith was granted 821 restricted shares of common stock valued at \$15.23 per share under the Fiesta Plan. The restricted common stock granted to Ms. Rauch, Mr. Friedman, Mr. Elker, Mr. Daraviras and Mr. Alperin vests over a period of five years and becomes non-forfeitable one-fifth on each anniversary of the award date, provided that, the participant has continuously remained a director of Fiesta Restaurant Group. The restricted common stock granted to Mr. Smith vests over a period of three years and becomes non-forfeitable one-third on each anniversary of the award date, provided that, the participant has continuously remained a director of Fiesta Restaurant Group. The amounts shown in this column represent the fair value of restricted common stock granted and approved by the Compensation Committee and is consistent with the grant date fair value of the award computed in accordance with FASB ASC Topic 718. There were no forfeitures in 2012 by these individuals.

We use a combination of cash and stock-based compensation to attract and retain qualified non-employee directors to serve on our board of directors. The members of our board of directors, except for any member who is an executive officer or employee, each will receive a fee for serving on our board or board committees. Non-employee directors will receive compensation for board service as follows:

Annual retainer of \$30,000 per year for serving as a director, except that the Chairman of our board of directors receives an annual retainer of \$45,000. Effective as of June 12, 2013, annual retainer will be \$45,000 per year for serving as a director, except that the Chairman of our board of directors will receive an annual retainer of \$60,000.

Attendance fees of an additional \$2,000 for each board of directors meeting attended in person and \$500 for each board of directors meeting attended telephonically or by videoconference. The chairman of our Audit Committee receives an additional fee of \$10,000 per year and each other member of our Audit Committee receives an additional fee of \$2,500 per year. The chairman of our Compensation Committee receives an additional fee of \$5,000 per year and each other member of our Compensation Committee receives an additional fee of \$2,500 per year. The chairman of our Corporate Governance and Nominating Committee receives an additional fee of \$2,500 per year and each other member of our Corporate Governance and Nominating Committee receives an additional fee of \$1,500 per year. All directors are reimbursed for all reasonable expenses they incur while acting as directors, including as members of any committee of our board of directors.

Effective as of June 12, 2013, members of our board of directors will not receive attendance fees for each board of directors meeting attended in person, telephonically or by videoconference. Effective as of June 12, 2013, the chairman of our Audit Committee will receive an additional fee of \$15,000 per year and each other member of our Audit Committee will receive an additional fee of \$7,500 per year. Effective as of June 12, 2013, the chairman of our Compensation Committee will receive an additional fee of \$10,000 per year and each other member of our Compensation Committee will receive an additional fee of \$5,000 per year. Effective as of June 12, 2013, the chairman of our Corporate Governance and Nominating Committee will receive an additional fee of \$5,000 per year and each other member of our Corporate Governance and Nominating Committee will receive an additional fee of \$2,500 per year. Effective as of June 12, 2013, the chairman of our Finance Committee will receive an additional fee of \$5,000 per year and each other member of our Finance Committee will receive an additional fee of \$2,500 per year. In addition, all directors will be reimbursed for all reasonable expenses they incur while acting as directors, including as members of any committee of our board of directors.

Pursuant to the Fiesta Plan, upon becoming a director, any future director will receive a number of shares of our restricted common stock having an aggregate fair market value (as defined in the Fiesta Plan) of \$100,000 which will vest in equal installments over five years.

On the date of each annual meeting of our stockholders beginning with the 2013 annual meeting, members of our board of directors, except for any member who is an executive officer or employee (i) will receive a number of shares of our restricted common stock having an aggregate fair market value (as such term is defined in the Fiesta Plan) of \$50,000 on the date of grant, which will fully vest on the first anniversary of the date of grant, or such other amount as determined by the Compensation Committee other than the Chairman of our board of directors who will receive a number of shares of our restricted common stock having an aggregate fair market value (as such term is defined in the Fiesta Plan) of \$62,500 on the date of grant, which will fully vest on the first anniversary of the date of grant, or such other amount as determined by the Compensation Committee, and (ii) may, in the discretion of the Compensation Committee, be granted outside director stock options in an amount determined by the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

The members of the our Compensation Committee for the fiscal year ended December 30, 2012 were Stacey Rauch, Brian P. Friedman and Jack A. Smith. None of the members of the our Compensation Committee were, during such year, an officer of us or any of our subsidiaries or had any relationship with us other than serving as a director except for Mr. Friedman who, by virtue of his employment with the JCP Group and its affiliates, may be deemed to be beneficial owner of the shares beneficially owned by the JCP Group. In addition, no executive officer served as a director or a member of the compensation committee of any other entity, other than any subsidiary of ours, one of whose executive officers served as a director or on our Compensation Committee. None of the members of our Compensation Committee, other than Mr. Friedman as described above, had any relationship required to be disclosed under this caption under the rules of the SEC.

PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Deloitte & Touche LLP as the independent registered public accounting firm to audit and report upon the consolidated financial statements of the Company for the fiscal year ending December 29, 2013. Although stockholder ratification of the board's action in this respect is not required, the board considers it desirable for stockholders to pass upon the selection of auditors and, if the stockholders disapprove of the selection, intends to reconsider the selection of the independent registered public accounting firm for the fiscal year ending December 29, 2013.

A representative of Deloitte & Touche LLP is expected to be present at the meeting and will have the opportunity to make a statement if so desired and is expected to be available to respond to appropriate questions from stockholders.

The majority of the shares present at the meeting and entitled to vote on the subject matter is required to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ended December 29, 2013.

The board of directors recommends a vote FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ended December 29, 2013. Proxies received in response to this solicitation will be voted FOR the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ended December 29, 2013 unless otherwise specified in the proxy.

Fees for Professional Services

The following table sets forth the aggregate fees billed to us for the fiscal years ended December 30, 2012 and January 1, 2012 by our independent registered public accounting firm, Deloitte & Touche LLP:

	Fiscal Year Ended,	
	December 30, 2012	January 1, 2012(1)
	(Amounts in thousands)	
Audit Fees (2)	\$ 675	\$
Audit-Related Fees (3)	37	
Total Audit and Audit Related Fees	712	
Tax Fees (4)	25	
Total	\$ 737	\$

- (1) For the fiscal year ended January 1, 2012, audit fees, audit-related fees and tax fees were included as part of the aggregate fees billed to Carrols Restaurant Group.
- (2) Audit fees represents the aggregate fees billed or to be billed for professional services rendered for the audit of our annual consolidated financial statements, review of interim quarterly financial statements included in our quarterly reports on Form 10-Q, and for the effectiveness of our internal controls over financial reporting.
- (3) Audit related fees shown include fees for assurance and related services that are traditionally performed by independent auditors.
- (4) The aggregate tax fees billed for professional services rendered for tax consulting and compliance.

Policy on Audit Committee Pre-Approval of Services Provided by Deloitte & Touche LLP.

The Audit Committee has established policies and procedures regarding pre-approval of all services provided by the independent registered public accounting firm. The Audit Committee pre-approves all audit and non-audit services provided by the independent registered public accounting firm, other than de minimis non-audit services, and shall not engage the independent registered public accounting firm to perform the specific non-audit services proscribed by law or regulation. The Audit Committee may form one or more subcommittees, each of which shall take such actions as shall be delegated by the Audit Committee; provided, however, the decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting.

Incorporation By Reference

A copy of the our Annual Report on Form 10-K and all of the exhibits attached for the fiscal year ended December 30, 2012, as filed with the SEC, may be obtained from www.proxyvote.com or the SEC's website at www.sec.gov. In addition, upon written request, we will send a complete copy of the Annual Report on Form 10-K as instructed on the Notice or below under Other Matters.

Other Matters

Stockholder proposals intended for inclusion in our proxy statement relating to the Annual Meeting of Stockholders in 2014 must be received by us no later than December 28, 2013. Any such proposal must comply with Rule 14a-8 of Regulation 14A of the proxy rules of the SEC. The proxy or proxies designated by us will have discretionary authority to vote on any matter properly presented by a stockholder for consideration at the 2014 Annual Meeting of Stockholders but not submitted for inclusion in the proxy materials for such meeting unless notice of the matter is received by us on or prior to March 12, 2014 and certain other conditions of the applicable rules of the SEC are satisfied. Under our amended and restated bylaws, proposals of stockholders not intended for inclusion in the proxy statement, but intended to be raised at our regularly scheduled Annual Meeting of Stockholders to be held in 2014, including nominations for election as directors of persons other than nominees of the Board of Directors, must be received no later than March 15, 2014 and must comply with the procedures outlined in our amended and restated bylaws, which may be found on our website www.frgi.com or a copy of which is available upon request from the Secretary of the Company, 14800 Landmark Boulevard, Suite 500, Addison, Texas 75254.

We will bear the cost of preparing, assembling and mailing the notice and, if requested, the form of proxy, this Proxy Statement and other material which may be sent to stockholders in connection with this solicitation and all costs associated with the new SEC rule that allows us to deliver our proxy materials to stockholders via the Internet. In addition to solicitation of proxies by use of the Internet, telephone and mail, our directors, officers and employees (who will receive no compensation therefore in addition to their regular remuneration) may solicit the return of proxies by telephone, telegram or personal interview.

We will request banks, brokerage houses and other custodians, nominees and fiduciaries to forward copies of the notice to their principals and to request instructions for voting the proxies. We may reimburse such banks, brokerage houses and other custodians, nominees and fiduciaries for their expenses in connection therewith.

COPIES OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 30, 2012, TOGETHER WITH FINANCIAL STATEMENTS AND SCHEDULES, AS FILED WITH THE SEC ARE AVAILABLE TO STOCKHOLDERS WITHOUT CHARGE UPON WRITTEN REQUEST ADDRESSED TO JOSEPH A. ZIRKMAN, VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY, FIESTA RESTAURANT GROUP, INC., 14800 LANDMARK BOULEVARD, SUITE 500, ADDISON, TEXAS 75254, OR ORAL REQUEST TO MR. ZIRKMAN AT 972-702-9300, EXT. 1004.

Our board of directors does not intend to present, and does not have any reason to believe that others intend to present, any matter of business at the meeting other than those set forth in the accompanying Notice of Annual Meeting of Stockholders. However, if other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote any proxies in accordance with their judgment.

WE ENCOURAGE YOU TO AUTHORIZE YOUR PROXY ELECTRONICALLY BY GOING TO THE WEBSITE WWW.PROXYVOTE.COM OR BY CALLING THE TOLL-FREE NUMBER (FOR RESIDENTS OF THE UNITED STATES AND CANADA) LISTED ON YOUR NOTICE AND PROXY CARD. PLEASE HAVE YOUR NOTICE OR PROXY CARD IN HAND WHEN GOING ONLINE OR CALLING. IF YOU AUTHORIZE YOUR PROXY ELECTRONICALLY OVER THE INTERNET, YOU DO NOT NEED TO RETURN YOUR PROXY CARD. IF YOU CHOOSE TO AUTHORIZE YOUR PROXY BY MAIL, SIMPLY MARK YOUR PROXY CARD, AND THEN DATE, SIGN AND RETURN IT IN THE POSTAGE-PAID ENVELOPE PROVIDED.

By order of the Board of Directors,

JOSEPH A. ZIRKMAN

Vice President, General Counsel and Secretary

14800 Landmark Boulevard, Suite 500

Addison, Texas 75254

April 25, 2013

FIESTA RESTAURANT GROUP, INC.
ATTN: LYNN S. SCHWEINFURTH, VP/CFO
14800 LANDMARK BOULEVARD, SUITE 500
ADDISON, TX 75254

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

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KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

DETACH AND RETURN THIS PORTION ONLY

FIESTA RESTAURANT GROUP, INC.

For All **Withhold All** **For All Except** To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends you vote FOR items 1 and 2:

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1. To elect as Class I Directors of Fiesta Restaurant Group, Inc., the nominees below:

Nominees:

- 01) Timothy P. Taft
- 02) Stacey Rauch

For Against Abstain

2. To ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of Fiesta Restaurant Group, Inc. for the 2013 fiscal year.

..

3. In their discretion, upon such other matters that may properly come before the meeting or any adjournment or adjournments thereof.

The Annual Meeting of Stockholders will be held on Wednesday, June 12, 2013 at 9:00 a.m. CDT at The Westin Galleria Dallas, 13340 Dallas Parkway, Dallas, Texas 75240.

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NOTE: The shares represented by this proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder(s). **If no such direction is made, this proxy will be voted FOR items 1 and 2.** If any other matters properly come before the meeting, the person(s) named in this proxy will vote in their discretion.

These items of business are more fully described in the Proxy Statement. Only stockholders of record on April 17, 2013 may vote at the meeting or any adjournment thereof. To vote by Internet, go to www.proxyvote.com.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners)

Date

FIESTA RESTAURANT GROUP, INC.

ANNUAL MEETING OF STOCKHOLDERS

JUNE 12, 2013

9:00 A.M. CDT

The Westin Galleria Dallas

13340 Dallas Parkway

Dallas, Texas 75240

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and 10-K Wrap are available at www.proxyvote.com.

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FIESTA RESTAURANT GROUP, INC.

PROXY FOR HOLDERS OF COMMON STOCK

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The stockholder hereby appoints Lynn S. Schweinfurth and Joseph A. Zirkman, or either of them, as proxies, each with full power of substitution and revocation, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of common stock of FIESTA RESTAURANT GROUP, INC. that the stockholder is entitled to vote at the Annual Meeting of Stockholders to be held at 9:00 AM, CDT on Wednesday, June 12, 2013, at The Westin Galleria Dallas, 13340 Dallas Parkway, Dallas, Texas 75240, and any adjournment or postponement thereof. Only stockholders of record on April 17, 2013 may vote at the meeting of any adjournment thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER. IF NO SUCH DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS AND FOR PROPOSAL 2.

Continued and to be signed on reverse side