

# SECURITIES AND EXCHANGE COMMISSION

## FORM NSAR-B

Annual report for management companies filed on Form N-SAR

Filing Date: **1998-01-05** | Period of Report: **1997-10-31**  
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### FILER

#### PRUDENTIAL EQUITY INCOME FUND

CIK: **803191** | IRS No.: **133376646** | State of Incorpor.: **MA** | Fiscal Year End: **1031**  
Type: **NSAR-B** | Act: **40** | File No.: **811-04864** | Film No.: **98500907**

Mailing Address  
*ONE SEAPORT PLZ  
NEW YORK NY 10292*

Business Address  
*199 WATER ST  
NEW YORK NY 10292  
2122141250*

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PAGE 2

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PAGE 3

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PAGE 5

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PAGE 6

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PAGE 7

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PAGE 15

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SIGNATURE      STEPHEN M. UNGERMAN  
TITLE            ASST. TREASURER

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<PAYABLE-FOR-SECURITIES>	26,329,106
<SENIOR-LONG-TERM-DEBT>	0
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<SHARES-COMMON-PRIOR>	86,004,429
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<OVERDISTRIBUTION-GAINS>	0
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<INTEREST-INCOME>	5,447,044
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<REALIZED-GAINS-CURRENT>	184,439,985

<APPREC-INCREASE-CURRENT>	363,934,627
<NET-CHANGE-FROM-OPS>	577,744,978
<EQUALIZATION>	0
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<NUMBER-OF-SHARES-SOLD>	699,979,865
<NUMBER-OF-SHARES-REDEEMED>	(681,144,020)
<SHARES-REINVESTED>	84,965,746
<NET-CHANGE-IN-ASSETS>	588,544,005
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<ACCUMULATED-GAINS-PRIOR>	60,320,527
<OVERDISTRIB-NII-PRIOR>	0
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<GROSS-ADVISORY-FEES>	8,306,148
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<AVERAGE-NET-ASSETS>	454,892,000
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<PER-SHARE-DIVIDEND>	0.00
<PER-SHARE-DISTRIBUTIONS>	(1.17)
<RETURNS-OF-CAPITAL>	0.00
<PER-SHARE-NAV-END>	21.00
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<SERIES>  
    <NUMBER> 002  
    <NAME> EQUITY INCOME FUND (CLASS B)

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<NET-INVESTMENT-INCOME>	29,370,366
<REALIZED-GAINS-CURRENT>	184,439,985

<APPREC-INCREASE-CURRENT>	363,934,627
<NET-CHANGE-FROM-OPS>	577,744,978
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<DISTRIBUTIONS-OTHER>	(29,828,289)
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<SERIES>

<NUMBER> 003

<NAME> EQUITY INCOME FUND (CLASS C)

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<REALIZED-GAINS-CURRENT>	184,439,985

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<NUMBER-OF-SHARES-SOLD>	699,979,865
<NUMBER-OF-SHARES-REDEEMED>	(681,144,020)
<SHARES-REINVESTED>	84,965,746
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<SERIES>  
    <NUMBER> 004  
    <NAME> EQUITY INCOME FUND (CLASS Z)

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<PERIOD-END>	OCT-31-1997
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<INVESTMENTS-AT-VALUE>	1,884,656,601
<RECEIVABLES>	59,603,129
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<ACCUM-APPREC-OR-DEPREC>	506,301,420
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<INTEREST-INCOME>	5,447,044
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<NET-INVESTMENT-INCOME>	29,370,366
<REALIZED-GAINS-CURRENT>	184,439,985



<APPREC-INCREASE-CURRENT>	363,934,627
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<NUMBER-OF-SHARES-REDEEMED>	(681,144,020)
<SHARES-REINVESTED>	84,965,746
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<ACCUMULATED-GAINS-PRIOR>	60,320,527
<OVERDISTRIB-NII-PRIOR>	0
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For the fiscal year ended 10/31/97

File number : 811-4864

SUB-ITEM 77 D

Policies with Respect to Securities  
Investments

A) On February 19, 1997 the Trustees approved a change in investment policy permitting the Fund to hold up to 15% of its net assets in repurchase agreements which have a maturity of longer than 7 days or in other illiquid securities.

B) On October 24, 1997 the Trustees approved a change in investment policies of the

Fund to expand the definition of equity related securities to include common stocks,

preferred stocks, rights, warrants and debt securities or preferred stocks which are

convertible or exchangeable for common stocks or preferred stocks and master limited

partnerships, among others.

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For the annual period ended October  
31, 1997  
File number: 811-4864

SUB-ITEM 77 0

EXHIBITS

Transactions Effected Pursuant to Rule 10f-3

1. Name of Issuer  
Equity Office properties
2. Date of Purchase  
7/7/97
3. Number of Securities Purchased  
137,500
4. Dollar Amount of Purchase  
\$2,887,500
5. Price Per Unit  
\$21.00
6. Name(s) of Underwriter(s) or  
Dealer(s)  
From whom Purchased  
Merrill Lynch
7. Other Members of the Underwriting  
Syndicate

Lehman Brothers Inc.  
Prudential Securities  
Incorporated  
Montgomery Securities  
Donaldson, Lufkin & Jenrette  
Securities Corporation  
Smith Barney Inc.  
Dean Witter Reynolds Inc.  
Oppenheimer & Co.  
William Blair & Co.  
Furman Selz Inc.  
Legg Mason Wood Walker, Inc.  
McDonald & Company Securities,  
Inc.

Piper Jaffray  
Rauscher Pierce Refsnes, Inc.  
Bear, Sterns and Company, Inc.  
PaineWebber Incorporated  
Deutsche Morgan Grenfell/C.J.  
Lawrence Inc.  
Fahnestock and Co. Inc.  
The Robertson-Humphrey Company  
Inc.  
Salomon Brothers Inc.  
Sutro & Co. Inc.  
Goldman Sachs & Co.  
ABN AMRO Chicago  
Alex, Brown & Sons, Inc.  
Chase Securities, Inc.  
Citicorp Securities, Inc.  
Credit Suisse First Boston  
Corp.  
Deutsche Morgan Grenfell, Inc.  
A.G. Edwards & Sons, Inc.  
Sanford C. Bernstein & Co.,  
Inc.  
William Blair & Company  
J.C. Bradford & Co.  
Neuberger & Berman  
Charles Schwab & Co., Inc.  
Stephens, Inc.  
Blaylock & Partners, LP  
First of Michigan Corp.  
WR Lazard, Laidlaw, Inc.  
NatCity Investments, Inc.  
Roney & Co., Inc.  
Samuel A. Ramirez & Co., Inc.  
Muriel Sievert & Co.  
Stifel, Nicolas & Company  
Sturdivant & Co.

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Board of Directors or Trustees of:

Prudential Adjustable Rate Securities Fund*	Prudential
Prudential Allocation Fund (2 Portfolios)	High Yield Fund
The BlackRock Government Income Trust	Prudential
Global Utility Fund	tial
Nicholas-Applegate Fund	Income
Prudential California Municipal Fund (2 Portfolios)	Vertib le
Prudential Distressed Securities Fund	Fund* Pruden
Prudential Diversified Bond Fund	tial Inter
Prudential Equity Fund	mediate
Prudential Equity Income Fund	Global
Prudential Global Genesis Fund	Income
Prudential Global Limited Maturity Fund	Fund Pruden
Prudential Global Natural Resources Fund	tial Jenni
The Global Government Plus Fund	on
The Global Total Return Fund	Fund Pruden
Prudential Government Income Fund	tial MoneyM
Prudential Government Income Fund	art
Prudential Government Income Fund	Assets Pruden
Prudential Government Income Fund	tial Mortga
Prudential Government Income Fund	ge
Prudential Government Income Fund	Income
Prudential Government Income Fund	Fund

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Govern  
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Fund\*  
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Utilit  
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Pruden  
tial  
World  
Fund

\* As of June 30, 1996, the Fund/Portfolio was no longer in operation. The Fund/Portfolio merged into another Fund within the Prudential Mutual Fund Family.

We have examined the accompanying description of the Prudential Multiple Class Pricing Worksheet (the "Worksheet") application of State Street Bank and Trust Company ("State Street"), custodian and recordkeeper for the Prudential Mutual Funds (the "Funds"). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of State Street's policies and procedures that may be relevant to a Fund's internal control structure relating to the Worksheet, (2) the control structure policies and procedures included in the description were suitably designed to achieve the control objectives specified in the description, if those policies and procedures were complied with satisfactorily, and (3) such policies and procedures had been placed in operation as of June 30, 1996. The control objectives were specified by Prudential Mutual Fund Management, Inc. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the



aforementioned application presents fairly, in all material respects, the relevant aspects of State Street's policies and procedures that had been placed in operation as of June 30, 1996. Also, in our opinion, the policies and procedures, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described policies and procedures were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific policies and procedures, listed in Section I, to obtain evidence about their effectiveness in meeting the control objectives, described in Section I during the period from July 1, 1995 to June 30, 1996. The nature, timing, extent, and results of the tests are listed in Section II. In our opinion the policies and procedures that were tested, as described in Section II, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section I were achieved during the period from July 1, 1995 to June 30, 1996. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section I were achieved; accordingly we express no opinion on the achievement of control objectives not included in Section I.

The relative effectiveness and significance of specific policies and procedures at State Street, and their effect on assessments of control risk on the Funds are dependent on their interaction with the policies, procedures, and other factors present at individual Funds. We have performed no procedures to evaluate the effectiveness of policies and procedures at individual Funds in connection with this report.

The description of policies and procedures at State Street is as of June 30, 1996, and information about tests of the operating effectiveness of specified policies and procedures covers the period from July 1, 1995 to June 30, 1996. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified policies and procedures at State Street is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any

conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by the management and Boards of Directors/Trustees of the Funds, the independent auditors of the Funds and the Securities and Exchange Commission.

## SECTION I

### Policies and Procedures Placed in Operation Prudential Multiple Class Pricing Worksheet

The Prudential Mutual Funds (the "Funds") have adopted a multiple class pricing system. The multiple class pricing system consists of four classes of shares (Class A, Class B, Class C and Class Z). Class A shares are subject to an initial sales charge, Class B and Class C shares are subject to a contingent deferred sales charge and Class Z shares have no sales charge (Class Z shares which were first offered on March 1, 1996, are offered exclusively for sale to the PSI Pension Plan). Each of the classes of shares represent interests in the same portfolio of investments of the respective Fund and are identical in all respects, except that each class is subject to different distribution expenses and has exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which such distribution expenses are paid.

In order to allocate income and expenses among the classes of shares, State Street Bank and Trust Company (the Funds' custodian and recordkeeper) utilizes the Prudential Multiple Class Pricing Worksheet (the "Worksheet") (see Exhibit I). The Worksheet is a manual supplementary application that extracts relevant data from the Funds' primary accounting system, allocates income and expenses among the classes of shares and computes the daily net asset value and, if

applicable, the dividend/distribution for each class of shares. Internal accounting controls that are relevant to the Fund can be divided into two components - controls related to the mutual fund accounting system resident at State Street Bank and Trust Company (the "primary accounting system") and controls related to the Worksheet.

The specific control objectives and policies and procedures relating to the Worksheet are described on pages 4 and 5. A description of the tests of the policies and procedures designed to obtain evidence about the operating effectiveness of those policies and procedures in achieving the specific control objectives is included in Section II.

Control Objectives and Policies and Procedures  
Prudential Multiple Class Pricing Worksheet

The Worksheet is a supplementary manual application to the Funds' primary accounting system. Certain data is extracted from the primary accounting system to allocate income and expenses and to calculate the daily net asset value and, if applicable, dividends/distributions for each class of shares. The primary accounting system includes the details of transactions in accordance with the Investment Company Act of 1940, as amended.

The following represents the internal accounting control objectives and policies and procedures for the allocation of income and expenses and the computation of the net asset value and, if applicable, the dividend/distribution for each class of shares utilizing the Worksheet. It does not cover the internal accounting control policies and procedures surrounding the processing of information into the Funds' primary accounting system.

CONTROL OBJECTIVES

CONTROL  
POLICIES  
AND  
PROCEDUR  
ES

A. Capital share activity as reported by the Fund's transfer agent is recorded for each class in an accurate and timely manner by the Fund.

1. Daily  
, the  
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agent

forwards reports of capital share activity for each class which includes a summary of subscriptions, redemptions, exchanges and other information (the "Supersheet"). The opening day's balance for shares outstanding and current day activity

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3. A

report of outstanding shares eligible for dividends is received from the transfer agent and is recorded for each class on the Worksheet.

B. Net Asset Value ("NAV") and, if applicable, the dividend/distribution for each class are accurately computed on a daily basis.

1. The prior days ending NAV per share (b) for each class is agreed to the prior day's Worksheet.

2. The daily net capital stock activity for each class for the current day is agreed to the Supersheet as described in Control Procedures A.1., 2. and 3., above.

3. Percentage Assets by Class and Percentage Dividend Assets by Class are calculated for each class based upon information from the prior day Worksheet, the Supersheet and the telefax from the transfer agent.

CONTROL OBJECTIVES

CONTROL  
POLICIES  
AND  
PROCEDUR  
ES

4. Allocate investment income among classes based on the appropriate asset allocation percentage for each class.

5. Agree composite income accounts, management fees, other expenses, realized gains and losses, and unrealized appreciation/depreciation to the primary accounting system of the Fund.

6. Allocate expenses among classes as follows:

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7. Allocate realized and unrealized gains and losses among the classes in accordance with the appropriate asset allocation percentage of each class.
8. Record dividends/distributions to shareholders of each class in the primary accounting system.
9. Aggregate the net assets for each class and agree to the total net assets per the primary accounting system.

10. For each class, reconcile the current day's NAV and, if applicable, the dividend/distribution to the previous day's NAV and dividend/distribution for each class.

11. The above procedures are reviewed by the Fund supervisor or manager.

## SECTION II

### Tests of Operating Effectiveness Prudential Multiple Class Pricing Worksheet July 1, 1995 to June 30, 1996

We reviewed the methodology and procedures for calculating the daily net asset value and, if applicable, the dividends/distributions of the classes of shares and the allocation of income and expenses among the classes of shares.

The following are the detailed procedures which we performed with respect to the Worksheet. These procedures were performed for selected days encompassing all Funds subject to multiple class pricing during the year ended June 30, 1996, which we believe is a representative sample, to test compliance with the control policies and procedures as described in Section I.

Prudential Mutual Fund Management, Inc. is the manager of the Funds and has represented to us that adequate facilities are in place to ensure implementation of the methodology and procedures for calculating the net asset value and dividends/distributions of the classes of shares and the allocation of income and expenses among the classes of shares. Based on our review of the description of the policies and procedures of the Worksheet, as described in Section I, and performance of tests of operating effectiveness as described in Section II, we concur with such representation.

Agreed "Prior Day NAV Per Share" to the previous day's Worksheet.

Agreed "Shares Outstanding Beginning of the Day" to the previous day's Worksheet and to the transfer

agency records for each class.

Recalculated "Activity/Estimate" by adding the estimated interim share activity reported via fax from the transfer agent and the current day's "Capital Stock Activity" reported on the Supersheet for each class.

Recalculated "Current Shares Outstanding" by adding "Shares Outstanding Beginning of the Day" and "Activity/Estimate" for each class.

Recalculated for each class "Adjusted Total Assets" by multiplying "Prior Day NAV Per Share" by "Current Shares Outstanding".

Recalculated "Percentage Assets-Class A/Front End" by dividing "Adjusted Total Assets-Class A/Front End" by "Adjusted Total Assets Composite".

Recalculated "Percentage Assets-Class B(C)/Back End" by dividing "Adjusted Total Assets-Class B(C)/Back End" by "Adjusted Total Assets Composite".

Recalculated "Percentage Assets-Class Z/No Fee" where applicable, by dividing "Adjusted Total Assets-Class Z/No Fee" by "Adjusted Total Assets Composite".

Agreed "Dividend Shares" to the transfer agency records for each class.

Recalculated "Current Dividend Shares" by adding "Dividend Shares Beginning of Day" and "Activity/Estimate" for each class.

Recalculated for each class "Adjusted Dividend Assets" by multiplying "Prior Day NAV Per Share" by "Current Dividend Shares".

Recalculated "Percentage Dividend Assets-Class A/Front End" by dividing "Adjusted Dividend Assets-Class A/Front End" by "Adjusted Dividend Assets Composite".

Recalculated "Percentage Dividend Assets-Class B(C)/Back End" by dividing "Adjusted Dividend Assets-Class B(C)/Back End" by "Adjusted Dividend Assets Composite".

Recalculated "Percentage Dividend Assets-Class Z/No Fee" where applicable, by dividing "Adjusted Dividend Assets-Class Z" by "Adjusted Dividend Assets Composite".

Agreed composite total of each component of income to the primary accounting system.

Recalculated the allocation for each class of each component of income for daily dividend funds by multiplying the composite total by "Percentage Dividend Assets-Class A/Front End", "Percentage Dividend Assets-Class B(C)/Back End" and where applicable, "percentage Dividend Assets-Class Z/No Fee", and for non-daily dividend funds by multiplying the composite total by "Percentage Assets-Class A/Front End", "Percentage Assets-Class B(C)/Back End" and where applicable, "Percentage Assets-Class Z/No Fee".

Recalculated "Daily Income," composite and for each class, by totaling each component of income.

Agreed composite total "Management Fee" and "Other Fixed Expenses" to the primary accounting system.

Recalculated the allocation for each class of "Management Fee" and "Other Fixed Expenses" for daily dividend funds by multiplying the composite total by "Percentage Dividend Assets-Class A/Front End", "Percentage Dividend Assets-Class B(C)/Back End" and where applicable, "percentage Dividend Assets-Class Z/No Fee", and non-daily dividend funds by multiplying the composite total by "Percentage Assets-Class A/Front End", "Percentage Assets-Class B(C)/Back End" " and where applicable, "Percentage Assets-Class Z/No Fee"

Agreed the "12b-1 Fee-Class A/Front End" and "12b-1 Fee-Class B(C)/Back End" to the respective "PC Expense Worksheet".

Recalculated "Daily Expense," composite and for each class, by totaling "Management Fee," "12b-1 Fee" and "Other Fixed Expenses".

Recalculated "Daily Net Income" for each class by subtracting "Daily Expense" from "Daily Income".

Recalculated "Dividend Rate" for each class for daily dividend funds by dividing "Daily Net Income"

by "Dividend Shares Beginning of Day-Class A/Front End", "Dividend Shares Beginning of Day-Class B(C)/Back End" and where applicable, "Dividend Shares Beginning of Day-Class Z/No Fee".

Agreed "Daily Income" and "Income Distribution" for each class to the primary accounting system.

Agreed the "Capital Gain Distribution" to the amount recorded in the primary accounting system.

Agreed composite total "Realized Gain/Loss" and "Unrealized Appreciation/Depreciation" to the primary accounting system.

Recalculated the allocation for each class of "Realized Gain/Loss" and "Unrealized Appreciation/Depreciation" by multiplying the composite amount by the "Percentage Assets-Class A/Front End", "Percentage Assets-Class B(C)/Back End" and where applicable, "Percentage Assets-Class Z/No Fee".

Agreed "Prior Days Net Assets" to the previous day's Worksheet.

Recalculated "Net Assets", composite and for each class, by totaling "Daily Net Income", "Income nDistributed", "Capital Stock Activity", "Capital Gain Distribution", "Realized Gain/Loss", "Unrealized Appreciation/Depreciation", and "Prior Days Net Assets".

Recalculated "NAV Per Share" dividing the "Net Assets-Class A/Front End", "Net Assets - Class B(C)/Back End" and where applicable, "Net Assets-Class Z/No Fee" by "Current Shares Outstanding - Class A/Front End", "Current Shares Outstanding - Class B(C)/Back End" and where applicable, "Current Shares Outstanding-Class Z/No Fee", respectively.

Recalculated "Offering Price" for Class A shares by applying the "Load" percentage as stated in the fund's prospectus.

December 19, 1997

To the Shareholders and Board of  
Trustees of  
Prudential Equity Income Fund

In planning and performing our audit of the financial statements of Prudential Equity Income Fund (the "Fund") for the year ended October 31, 1997, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and to comply with the requirements of Form N-SAR, not to provide assurance on internal control.

The management of the Fund is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control activities. Generally, control activities that are relevant to an audit pertain to the entity's objective of preparing financial statements for external purposes that are fairly presented in conformity with generally accepted accounting principles. Those control activities include the safeguarding of assets against unauthorized acquisition, use or disposition.

Because of inherent limitations in



internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that it may become inadequate because of changes in conditions or that the effectiveness of the design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of any specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above as of October 31, 1997.

This report is intended solely for the information and use of management and the Board of Trustees of the Fund and the Securities and Exchange Commission.