



What is an IPO lock-up period and how long is it?

By Amy Fontinelle



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A. An [initial public offering \(IPO\) lock-up period](#) is a contractual restriction that prevents insiders who are holding a company's stock, before it goes public, from selling the stock for a period usually lasting 90 to 180 days after the company goes public. Insiders include company founders, owners, managers, employees and [venture capitalists](#).

The purpose of an IPO lock-up period is to prevent the market from being flooded with a large number of shares, which would depress the stock's price. Insiders' selling activities can have a particularly strong [impact on a company's share price](#) when the company has recently gone public because these stockholders typically own a relatively large percentage of the company's shares, while only a small percentage of shares are sold to the public.

Another reason for the lock-up period is that large sales by those closest to the company can give the appearance of a lack of faith in the company's prospects, even when insiders simply want to cash in long-anticipated profits. It is common for a company's stock price to drop permanently when the lock-up period ends and for its trading volume to increase substantially.

Sometimes insiders cannot sell their shares even when the lock-up period expires because they possess material, nonpublic information and a sale would constitute [insider trading](#). Such a scenario might occur, for example, if the end of the lock up coincided with [earnings season](#).

The [Securities and Exchange Commission](#) does not require companies that are [going public](#) to have a lock-up period. Rather, the lock-up period is something that the companies themselves and/or the [investment banks](#) underwriting the IPO request to keep the stock's price up.

For example, Facebook's IPO lock up prevented the sale of 271 million shares during the company's first three months of public ownership. FB hit an all-time low of \$19.69 the day its first lock-up period ended, a price about 50% lower than the share price on the day the company went public. Further restrictions prevented the sale of another 1.66 billion shares through mid-2013. Facebook's unusual lock-up policy released [insider](#) shares at five different dates.

The public can learn about a company's lock-up period(s) in its S-1 filing with the SEC; subsequent S-1As will announce any changes to the lock-up period(s).

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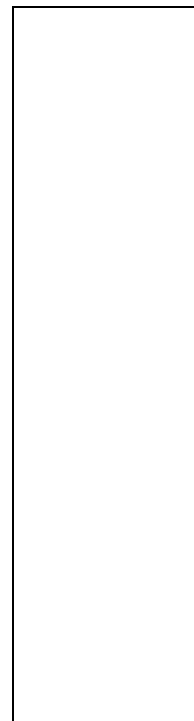
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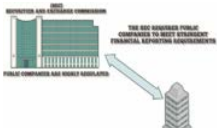
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