

## Hollywood Talent Takes a Stake in the Internet

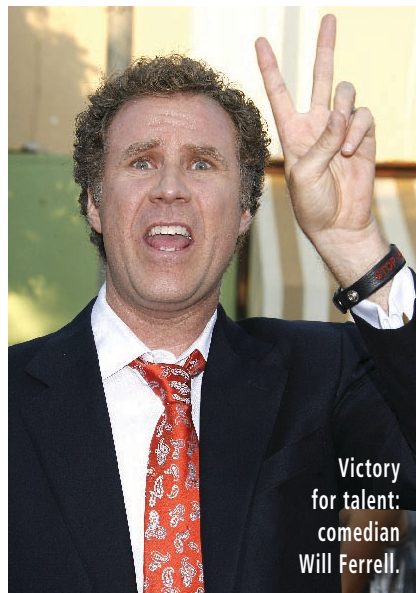
Will Ferrell's FunnyOrDie.com is the first and most successful of a new wave.—By Theodora Blanchfield

Venture capitalists are once again pouring money into Internet content. In the second quarter, according to the National Venture Capital Association, VCs invested \$464 million in companies developing online content, the highest quarterly total since the height of the dot-com boom in early 2000. Investors see new opportunities in the increase of the number of people viewing video online and the fast growth of the mobile Web. According to Nielsen, 16 percent of cell phone users now routinely access the Internet from phones. Likewise, Apple's iPhone and other smart phones are spurring demand for cool new digital content.

This time around, the venture capitalists have unfamiliar new partners in the Internet content game: top Hollywood talent agencies. Major agencies such as International Creative Management, Inc. (ICM), William Morris Agency, Inc., Creative Artists Agency, Inc., and United Talent Agency, Inc., see their stars as capable of generating intellectual property that will be valuable on the Web—and they want an ownership stake. William Morris has teamed up with Venrock Associates, Accel Partners, and AT&T to develop the Mailroom Fund (named for all those Hollywood moguls that got their start in a mailroom). That fund reportedly has raised \$150 million and has already invested in Sometrics, a site that supports ads on social networks. ICM has been working with Qualcomm Inc. to raise funds for its own venture.

The first fruit of these partnerships—and the most successful to date—has been comedian Will Ferrell's FunnyOrDie.com, which was put together by his longtime agency Creative Artists and Sequoia Capital, which contributed \$15 million. The idea for the site came from Michael Kvamme, son of Sequoia

venture capitalist Mark Kvamme and an aspiring comic himself, who thought that comedy could play well on the Web. The older Kvamme approached CAA and Ferrell, and Funny or Die Inc. was born in April 2007. The site saw its first big hit with "The Landlord" sketch, which had the 2-year-old "landlord" Pearl (daughter of site cofounder Adam McKay, former head writer for



Victory for talent: comedian Will Ferrell.

*Saturday Night Live* and a writing collaborator with Ferrell) berating Ferrell for unpaid rent. (The video has been viewed more than 57 million times.)

The site features other comedy video skits from Ferrell and friends, as well as uploads from up-and-coming and wannabe comics. Users distinguish the funny from the not-so-funny through a voting system. The not-so-funny videos "die"—hence the name—and are sent to "The Crypt."

Advertising on the site comes mostly from studios pushing comedy movies, says writer Chris Henchy, another cofounder and husband of Brooke Shields. The company recently got a vote of approval from an old-media stalwart: HBO has invested \$10 mil-

lion for ten half-hour shows in hopes of getting the site's roughly half-a-million visitors per month to tune in.

"The difference between Funny or Die and [writing for a movie]," says Henchy, "is that anybody who writes something [for Funny or Die] owns the rights." The potential for the writers and actors to own their own IP has always existed, notes Rob Rader, an attorney at Los Angeles-based Mitchell Silberberg & Knupp. "Now you can [produce content] and put it up on the Web relatively cheaply . . . and it makes that ownership of [the IP] meaningful," Rader says.

R. Todd Johnson, the managing partner at Jones Day's office in Silicon Valley who is outside counsel to Funny Or Die, got involved with the site because of his long connection with Sequoia. He says that putting together this type of deal requires asking a whole set of questions about how the content might be used in the future. For example, he says, "it's one thing to put up a short movie, but what if you create a TV show that riffs off the movie? Who has access to those rights? How does that impact the contract with the artists?" It's necessary, he says, to "slice and dice" the rights to deal with many possible future outcomes. According to Funny Or Die's terms of use, submission of a video automatically confers a nonexclusive license to Funny Or Die.

Sequoia VC Mark Kvamme is hoping that advertisers will pile on board. "The cost of creating things is going way down, and monetizing is getting much more efficient," he says.

But, for the most part, advertisers have been slow to want their ads next to user-generated content, and plenty of skeptics think the newest build-up of VC investment in digital content is a sign of another bubble in the making. Will the VCs and talent agencies exit from these ventures with a smile? ■