millionth time about Twitter's plan to increase revenue, Costolo says he will "probably continue to be more patient than people would expect me to be," adding that he has no immediate plans for an initial public offering. A former member of a Chicago improvisational troupe, he's also known for his self-deprecating sense of humor. Talking about the challenges Twitter faces in blocking spammers who might scare off business, he says, "We can learn from those who came before us and the kinds of things that they went through. I think that will ameliorate some of the concerns that advertisers have." He pauses for a moment. "That was a good use of the word 'ameliorate,' by the way. Don't you think? Right? Someone has to give me credit!"

After joining Twitter in late 2009 as chief operating officer, Costolo's first move was to go on a hiring binge, poaching talent from Google, News Corp., and Oracle. He later collaborated with Fenton and Bill Campbell, a famous Silicon Valley executive coach and Apple board member, to lure Dorsey back into an active role guiding product decisions. Having Dorsey, Costolo says, "clears away a lot of the contentious discussion you might have about whether you should zig or zag in respect to product decisions." Costolo also devised a six-hour leadership course, which he administers to senior executives four times a year, and directed one of the company's first engineers, Alissa Huskey, to lead a team to define Twitter's core values. The entire company eventually joined in and came up with a list of 10 principles, including "Grow our business in a way that makes us proud" and "Innovate through experimentation." That may sound like the worst kind of corporate offsite banality, but Costolo says it helped. "If you don't know where you're going, it seems like any road will take you there," he says.

Before Costolo became CEO, Twitter defined its business model more by what it did not want to do than what it did. In early 2009, it rejected an entreaty by Microsoft to put ads alongside results from searches on the service because it had not decided on a course of action to make money. It also considered and rejected selling data to corporate users about their Twitter activity and who was following them, and shelved a short-lived effort to tweet Groupon-style discounts, concluding those were not big enough businesses.

Twitter still makes money with licensing deals—Microsoft pays to get a real-time feed of tweets for its search engine, Bing. But Costolo firmly established the company's primary identity as a communications tool that lets advertisers contribute content along with other users free of charge—and then pay extra to make their messages more prominent. The centerpiece of Twitter's plans, what Costolo calls "the atomic unit of our ad strategy," is the "promoted tweet," a message from an advertiser that appears near the top of a user's feed. Advertisers pay only when a user "engages" with the tweet—retweets it, say, or clicks on a link. The more people click on an ad, the more the ad appears. Twitter executives trumpet an engagement rate of 3% to 5%, compared with less than 0.5% for normal banner ads.

Costolo credits Ashish Goel, a Stanford University computer science professor and part-time Twitter consultant, with helping the company realize that tweets could double as ads. Goel had an important insight: Everyone on Twitter is a marketer who wants to promote a link, a piece of news, or a personal update. Twitter's strongest appeal to advertisers was to allow them to pay to add more heft to a standard message. Ads could then flow not only to the central Twitter website but to all of the various Twitter software programs on the Web and on mobile phones, some of which are administered by third-party companies.

After formulating its system, Twitter moved cautiously to roll it out. In 2010 it monitored how many ads it could show users before they became frustrated. It later dabbled by opening advertising to Starbucks, Virgin America, Best Buy, and a few other big companies. For Walt Disney, then about to premiere *Toy Story 3,* Twitter developed the "promoted trend," which sits atop the list of popular topics on the main Twitter page for a full day and currently sells for about $120,000 in the U.S. It also started selling "promoted accounts" to advertisers that wanted to pay to have their Twitter names featured to users, a surefire way to add followers.

In summer 2010, Costolo recruited Adam Bain, an easygoing News Corp. sales executive, to run Twitter's ad efforts. Bain was an unlikely choice; he hailed from Fox Interactive Media, whose banner ads on Myspace.com tended to be gaudy, disruptive, and annoying to users. (Remember those infamous "punch the monkey" ads?) Bain describes his decision to move to Twitter as a "Jerry Maguire moment," a workplace epiphany where he discovered a fundamentally better form of Web advertising. Banner ads, he realized, "forced bad incentives and bad behavior by marketers" because blinky, brash ads were the only ones that grabbed users' attention and elicited their clicks. Twitter had "cracked the code on a new form of advertising," where ads are treated like every other kind of content on the site.

Bain spent his first few months at Twitter outside the office, meeting with ad agencies and advertisers and listening to what they wanted from Twitter. He visited 140 chief marketing officers in 140 days, sometimes with Costolo in tow. (Get it? Tweets max out at 140 characters.) One of Bain's slides showed the path not taken: a clean Twitter website under assault from banner ads hawking lotion, handbags, and cell phones, which descend onto the page amid dramatic clouds of virtual smoke.

The message—Twitter was taking a more nuanced, user-friendly approach—resonated with ad executives. It also left them with questions. CEO Tom Bedecarre of AKQA, a San Francisco-based digital marketing firm, calls himself an admirer of Bain