**Abstract**

The main objective of the firms is to maximize its profits and in the same time minimize its costs, when companies search about resources to finance its investments they take this objective in consideration. The main sources that firms could use to provide the necessary finance are the internal finance which is equity, and the external finance which is debt. Most of companies use a mix between equity and debt which form the capital structure. Capital structure was defined firstly by Modigliani and Miller as the mix between debt and equity that the company uses in its operation. The paper that published by Modigliani and Miller refers to the impact of capital structure on firm value under many restrictive assumptions that have been modified by them five years later in (1963). After Modigliani and Miller, Jensen and Meckling discussed the agency cost theory which refers to the potential conflict between managers and shareholders in one side, and between shareholders and debtors in another side. Since Jensen and Meckling’s argument the relationship between capital structure and firm performance, many researchers have begun to study the relationship between capital structure and firm performance.