UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

Kunal Sethi v. Mohammed Jaffar Ismail and Lubna Ismail

Sethi v. Ismail, No. 2:25-cv-13448 (BRM) (AME) (D.N.J. Jan. 13, 2026) · No. 2:25-cv-13448 (BRM) (AME) · Decided January 13, 2026

SUMMARY

The United States District Court for the District of New Jersey addresses a petition to confirm and a cross-motion to vacate an American Arbitration Association award arising from a franchise-company operating agreement. Applying the Federal Arbitration Act and New Jersey contract law, the court denies the petition to confirm, grants the motion to vacate, and remands the matter to the AAA for additional arbitration proceedings and further evaluation.

CASE DETAILS

COURT	United States District Court for the District of New Jersey
WRITING FOR THE COURT	Brian R. Martinotti
JURISDICTION	United States District Court for the District of New Jersey
DECIDED	January 13, 2026
DOCKET	2:25-cv-13448 (BRM) (AME)
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Petitioner moved under Federal Arbitration Act § 9 to confirm an arbitration award. Respondents cross-moved under FAA § 10 to vacate the award. The court denied confirmation, granted vacatur, and remanded the matter to the AAA for additional arbitration proceedings.
STANDARD OF REVIEW	Arbitration awards are reviewed under an extremely deferential standard, with vacatur available only under the narrow circumstances identified in FAA §§ 10 and 11. The party seeking to vacate or modify an award bears a heavy burden. An arbitrator exceeds the arbitrator's powers by deciding an issue not submitted, granting relief not rationally derived from the parties' agreement and submissions, issuing an irrational award, manifestly disregarding governing law, or violating a well-defined and dominant public policy.
PRECEDENTIAL VALUE	unpublished

TOPICS

arbitration · breach of contract · commercial litigation · limited liability companies · remedies

PRACTICE AREAS

arbitration · commercial litigation · contracts · limited liability companies · remedies

QUESTIONS PRESENTED

1. Whether the arbitrator demonstrated evident partiality under FAA § 10(a)(2) by determining that the Artesia franchise agreement was unenforceable even though the parties had not expressly raised that issue.
2. Whether the arbitrator exceeded his powers under FAA § 10(a)(4) by treating Respondents' failure to pay royalties as a total breach and awarding a lump sum for future royalties under New Jersey installment-contract principles.
3. Whether the arbitrator exceeded his powers by imposing personal liability on the individual Respondents for obligations of the LLC without a waiver of statutory liability insulation or facts warranting veil piercing.
4. Whether the arbitrator exceeded his powers by awarding attorneys' fees and arbitration costs without an express contractual fee-shifting provision.

HOLDINGS

1. The arbitrator's consideration of the Artesia franchise agreement did not establish evident partiality because Respondents placed the agreement in the record and asserted a counterclaim based on the closure of the Artesia restaurant. The court therefore denied vacatur under FAA § 10(a)(2).
2. Under the New Jersey installment-contract rule, Respondents' failure to pay royalties constituted only a partial breach, not a total breach, because the operating agreement contained no acceleration clause and the arbitrator found no anticipatory repudiation. The arbitrator therefore exceeded his powers by awarding a lump sum representing future royalties.
3. The arbitrator exceeded his powers by imposing personal liability on Respondents for the LLC's contractual obligations without a demonstrated waiver of liability insulation or extraordinary circumstances warranting piercing the corporate veil.
4. The arbitrator exceeded his powers by awarding attorneys' fees and costs based solely on the parties' agreement to arbitrate under AAA rules, because the operating agreement did not expressly authorize fee shifting.
5. The court denied Petitioner's motion to confirm the arbitration award, granted Respondents' motion to vacate under FAA § 10(a)(4), and remanded the matter to the AAA for additional arbitration proceedings and further evaluation consistent with the opinion.

KEY QUOTATIONS

> *"On February 1, 2024, Respondents failed to pay Petitioner said royalties and, as a result, a breach of contract claim accrued."* (III.B.1)

> *"Accordingly, as a "total" breach of contract claim had not accrued under the installment contract rule, the Arbitrator exceeded his powers by awarding damages in conflict with well-established New Jersey law."* (III.B.1)

> *"Accordingly, as neither Petitioner nor the Arbitrator addressed the issue of personal liability prior to the Award, the Arbitrator exceeded his powers by awarding damages against Respondents personally in conflict with the NJ RULLCA and the well-established fundamental purpose for incorporation, i.e., insulation from personal liability."* (III.B.2)

> *"Accordingly, as the Arbitrator awarded attorneys' fees and costs absent an express provision in the Operating Agreement authorizing same, the Arbitrator exceeded his powers in conflict with well-established New Jersey law."* (III.C)

> *"Petitioner's Motion to Confirm is DENIED, Respondents' Motion to Vacate is GRANTED, and the matter is REMANDED to the AAA for additional arbitration proceedings and further evaluation consistent with this Opinion."* (Conclusion)

FACTUAL BACKGROUND

Respondents formed TPP Express, LLC with Petitioner under a New Jersey operating agreement that gave Petitioner a 40% interest in royalties from franchise stores established during the agreement's extended fifty-four-month period. Six franchise stores had been established by January 31, 2024, when the agreement terminated and ownership reverted to Respondents. The arbitrator found Respondents breached by failing to pay Petitioner his royalty share and awarded a lump sum representing estimated future royalties, along with attorneys' fees and costs. The arbitrator also imposed the award against Respondents personally, despite the LLC structure and the absence of an express fee-shifting provision in the operating agreement.

PROCEDURAL HISTORY

Petitioner filed a demand for AAA arbitration concerning the parties' operating agreement. The arbitrator awarded Petitioner $640,280.33 in past and future royalties and $116,434.50 in attorneys' fees and costs, while rejecting the remaining claims and Respondents' counterclaims. Petitioner sought confirmation in federal court, and Respondents sought vacatur. The district court denied confirmation, granted vacatur under FAA § 10(a)(4), and remanded for further arbitration proceedings.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The matter was remanded to the AAA for additional arbitration proceedings and further evaluation consistent with the opinion. The opinion specifically rejected the lump-sum total-breach damages, personal liability against Respondents absent a basis for waiver or veil piercing, and attorneys' fees and costs absent express contractual authorization.

CASES CITED

- France v. Bernstein, 43 F.4th 367, 377 n.7 (3d Cir. 2022)
- Sutter v. Oxford Health Plans LLC, 675 F.3d 215, 219-20 (3d Cir. 2012)
- Freeman v. Pittsburgh Glass Works, LLC, 709 F.3d 240, 252-53 (3d Cir. 2013)
- Metromedia Energy, Inc. v. Enserch Energy Servs., Inc., 409 F.3d 574, 579 (3d Cir. 2005)
- Cipala v. Lincoln Tech. Inst. (Cipala II), 843 A.2d 1069, 1072-73 (N.J. 2004)
- In re Estate of Balk, 138 A.3d 572, 576 (N.J. Super. App. Div. 2016)
- Dean v. Provisor, No. A-1199-20, 2022 WL 2711255, at *6-7 (N.J. Super. Ct. App. Div. July 13, 2022)
- R.C. Beeson, Inc. v. Coca Cola Co., 337 F. App'x 241, 243-44 (3d Cir. 2009)
- Patel v. New Jersey Department of Treasury, Division of Revenue & Enterprise Services, 318 A.3d 685, 688-89 (N.J. Super. Ct. App. Div. 2024)
- Richard A. Pulaski Construction Co. v. Air Frame Hangars, Inc., 950 A.2d 868, 877-78 (N.J. 2008)
- Knorr v. Smeal, 836 A.2d 794, 798 (N.J. 2003)
- Litton Industries, Inc. v. IMO Industries, Inc., 982 A.2d 420, 439-40 (N.J. 2009)
- Rock Work, Inc. v. Pulaski Construction Co., Inc., 933 A.2d 988, 995-96 (N.J. Super. Ct. App. Div. 2007)
- Stolt-Nielsen S.A. v. AnimalFeeds International Corp., 559 U.S. 662, 671 (2010)
- Moses H. Cone Memorial Hospital v. Mercury Construction Corp., 460 U.S. 1, 25 n.32 (1983)